

# TECHNICAL GUIDE ON REVIEW AND CERTIFICATION OF INVESTMENT RISK MANAGEMENT SYSTEMS AND PROCESSES 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  
REVIEW AND CERTIFICATION OF  
INVESTMENT RISK MANAGEMENT  
SYSTEMS AND PROCESSES OF  
INSURANCE COMPANIES**



***Committee on Insurance and Pensions***  
**The Institute of Chartered Accountants of India**  
New Delhi

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## FOREWORD

Insurance aims to protect the owner from financial losses that he suffers for the risks he has taken. Ever since the Insurance emerged as a business, the Governments, in view of its very strong societal links, have felt the need for its proper monitoring and regulating. Regulating the investment function in this industry has become crucial in the market driven economy, as the money involved represents huge savings of the public. Moreover, what the public invest in insurance companies is out of their savings and not out of surplus, unlike in the case of deposits with banks.

In order to protect the interest of policyholders, to regulate, promote and ensure the orderly growth of the Insurance Industry, the Government set up the Insurance Regulatory and Development Authority (IRDA) in 2000. The IRDA, in order to develop the insurance sector allows investing in different investment avenues, by weighing the various risks associated to efficiently serve the policyholders and also ensure an orderly growth of insurance business. The audit of investment functions of insurance companies is a necessary effort to ensure appropriate compliance with the various rules and regulations in this regard.

I am happy to know that the Committee on Insurance and Pension of the Institute has brought out this Technical Guide on Review and Certification of Investment Risk Management Systems and Processes of Insurance Companies providing detailed guidance on the manner of the audit of the Insurance and risk management systems and processes of insurance companies in accordance with the recent directions of the IRDA.

I believe that the instant 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.

I would like to thank the Chairman IRDA and his dynamic team for reposing faith in the profession for carrying out the Certification of Investment Risk Management Systems and Processes of Insurance Companies. I would like to complement the Committee on Insurance and Pension and its Chairman, CA. Pankaj Inderchand Jain and his team for doing a valuable work in bringing out this Technical Guide.

New Delhi

November 27, 2008

**Ved Jain**

President



## PREFACE

Since privatization of the insurance sector, there has been considerable growth in the insurance industry leading to sharp increase in the quantum of monies available with insurance companies. As a result the management of Investments has assumed greater importance in the over all interest of all the stakeholders as well as the economy. The Insurance Regulatory and Development Authority (IRDA) has always been very proactive in bringing out the relevant regulations for better management, reporting and protection of the interest of various stakeholders. The emphasis laid by IRDA on the System and Procedures of insurers to manage the Investments is also very laudable.

The IRDA has recently amended the Insurance Regulatory and Development Authority (Investment) Regulations, 2000 by issuing a circular, directing all insurers to file a compliance certificate issued by a Chartered Accountant, certifying that the Investment Risk Management Systems and Processes are in place and are working effectively.

The Institute of Chartered Accountants of India (ICAI) has always been working very closely with IRDA and has always tried to complement the initiatives taken by them. In response to the aforesaid circular issued by IRDA recently, the ICAI deemed it fit to bring out this Technical Guide on Review and Certification of Investment Risk Management Systems and Processes of insurance companies, providing detailed guidance on the manner in which the compliance verification of the Investment Risk Management System is required to be carried out in accordance with the circular issued by IRDA.

I take this opportunity to thank IRDA for reposing confidence in the ICAI for providing technical support in helping its members carry out the responsibilities given to them by the IRDA.

I place on record my sincere gratitude to CA. S.N. Jayasimhan, Deputy Director (Investments), IRDA, Shri A.V. Rao, Deputy Director (Actuarial), IRDA, CA. Viraj Londhe, CA. Viren Mehta and Dr. Vishnu Kanhere for preparing the basic draft of this Guide. I am also thankful to other members and Special Invitees of the Expert Study Group on Investment Function of Insurance Companies of the Committee on Insurance and Pension of the Institute for their valuable contribution in finalising 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. Ved Jain and other members and special invitees of 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 for their contribution in timely releasing this Technical Guide.

**CA.Pankaj Inderchand Jain**

New Delhi

November 27, 2008

Chairman,

Committee on Insurance and Pension



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# INTRODUCTION

## Introduction

- 1.01 Insurance in India has come of age. Insurers have been operating in India for a very long time, but were run by one life insurance and four state owned Insurance Companies. In the post liberalisation phase, private insurers have also come on to the scene. Since insurance is concerned with the protection of a citizen's life and /or properties as well as national wealth, ever since insurance emerged as a business, the Governments, in view of its strong societal links, have felt the need for its proper monitoring and regulating it through proper and extensive legislation.
- 1.02 Under the Insurance Regulatory and Development Authority Act, 1999 (IRDA Act), in order to protect the interests of holders of insurance policies, the Government set up the Insurance Regulatory and Development Authority (IRDA), on 19th of April, 2000, to regulate, promote and ensure the orderly growth of the insurance industry and for matters connected therewith or incidental thereto and further to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972.
- 1.03 Insurance business has always been truly global and international in scope. Recognizing this, regulators of different countries banded together to form the International Association of Insurance Supervisors (IAIS). India is among the more than one hundred members of IAIS. The broad principles of IAIS are meant to see that:
- There is recognition of the fact that insurance is an international subject;
  - Insurance requires to be monitored properly to ensure its healthy growth; and
  - There is a standards setting mechanism.
- 1.04 The International standards are mainly concentrated in the following areas:
- Control over registration of companies
  - Management of business through fit and proper persons to be employed
  - Pricing of products to be done on scientific lines
  - Management of Investments and associated Risks

- Maintenance of required Solvency margin
- Proper settlement of claims of consumers.

1.05 Hence, world over, the focus is on controlling the above key factors through regulations. In India, IRDA had implemented such controls through the following key regulations:

- IRDA (Registration of Indian Insurance Companies) Regulations, 2000
- IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000
- IRDA (Appointed Actuary) Regulations, 2000
- IRDA (Actuarial Report and Abstract) Regulations, 2000
- IRDA (Investment) Regulations, 2000
- IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000
- IRDA (General Insurers – Re-insurance) Regulations, 2000
- IRDA (Life Insurers – Re-insurance) Regulations, 2000
- IRDA (Protection of Policyholders' Interest) Regulations, 2000
- IRDA (Distribution of Surplus) Regulations, 2000

# INVESTMENT FUNCTION OF AN INSURER

## Introduction

- 2.01 During the nationalized regime, state owned LIC and GIC along with its four subsidiaries were the only players in the country in life and general insurance business, prior to the advent of IRDA.
- 2.02 The investment portfolios of the insurance companies were earlier channelized to meet the objectives and priorities of the Government.
- 2.03 As per the recommendations of Malhotra Committee, the controlled investments in Government and approved securities of life insurance companies have been reduced to 50% while those for general insurance companies has been reduced to 30% of investible funds.
- 2.04 Thus a higher amount has been made available to insurers to invest in private and corporate sectors, housing and infrastructure sector, etc., to provide freedom in the structure of the investment portfolio but at the same time aligning it to fit into the overall investment strategy of the insurer. This required the regulators to frame regulations to make insurers properly use the freedom provided, but at the same time, through exposure norms, ensure such flexibility is not used beyond permitted levels.
- 2.05 Therefore, it would be proper to conclude that regulating the investment function in this industry is a necessity even in the market driven economy, as the money involved represents huge 'public savings'. Moreover, what the public invest in insurance companies is out of their savings and not out of surplus, unlike in case of deposits with banks. It is because of this reason that the regulations keep 'policyholder protection' as its prime concern. But the regulator responsible for develop the insurance sector allows investing in different investment avenues, by weighing the various risks associated to efficiently serve the policyholders and also ensure an orderly growth of Insurance business. The Audit of investment functions of insurance companies is a necessary effort in this direction.
- 2.06 Any insurance contract, ultimately, is based on the fact as well as faith. Faith of the policyholders to that if and when there is a claim under their policy it would be settled properly; that there are mechanism to ensure that the insurance company will be solvent for a period longer than the term of the policy.

- 2.07 By themselves, insurance companies are major players in a nation's economy. The sheer volume of monies itself speaks its role in the economy of India. In the financial year 2007-08, for example, the Life Insurance Companies collected first year premium of Rs. 92988.71 crores and Non-life Insurance Companies (including health insurers), collected a gross premium of Rs. 86242.13 crores making it to an aggregate of Rs. 179230.84 crores.
- 2.08 The Non-life Insurance Companies holds 37.45% of their overall invested funds in Government securities (inclusive of state govt. and other approved securities), 7.43% in the Housing sector and 12.11% in infrastructure investments in 2006-2007. The total invested funds (as of March 31, 2007) was Rs. 50383 crores, which represented almost 19% increase in invested funds over the previous year. The national economy has benefited significantly from this sector, since the rate of investment of these funds was considerably higher than the growth rate of the GDP.
- 2.09 Because of the quantum of monies that are involved and due to their significance, the channeling of insurance monies in to proper sectors has assumed great importance and therefore the regulations, owing to national priority, have become crucial. So, IRDA would like to be very certain that these funds are properly invested as per the notified regulations, and that the same is in line with national economic policy [which also takes into consideration the expectations of the policyholders].

### **Trade off in Investment Decisions**

- 2.10 Though insurance companies provide solutions to risks of others, they have their own risk, both operational and financial. Investments always come with risk. However, the degree of risk varies based on the types of investments, quantum of money invested [exposure] and the term.
- 2.11 The Insurance company has to make a careful analysis before making any investment decisions, taking into consideration the nature of business, risk involved, return required to meet the actuarial assumptions on returns anticipated out of the investment to be made at the time of designing the product, liquidity requirements, regulatory prescriptions etc, .
- 2.12 Further, the investments made should also take into consideration the Policyholders' Reasonable Expectations (PRE) which has a bearing on the following factors:
- Guarantees made,

- Achieving a real return, that should be in excess of guarantees made, particularly on without profit policies,
- Realised returns are fairly consistent with returns of earlier period(s).

### **2.13 Objectives of regulating the Investments of the Insurance Companies**

- The regulations aim to ensure the safety of funds, which belong to the policyholders.
- To maintain quality of invested assets to support the prescribed solvency parameters of the insurer.
- The occasional lower interest rate regimes could compel companies to seek alternate investments channels which would optimize the returns, but in such process would subject the investment to higher risks. Regulations would not allow exposure to such high risk investments.
- The prudential norms ensure proper spread and thus avoid 'concentration risk'. Hence investment regulations limit exposure to a particular company or a group (including group to which the insurer belong) of companies or to a particular industry sector except Infrastructure to ensure proper diversification of the investment portfolio.
- Regulations also prevent an insurer from taking a controlling stake, out of policyholders' funds, in any company by limiting exposure either to 'Debt' or 'Equity' mode.

2.14. Another important factor in regulation of investment that cannot be lost sight of is the need to earmark some portion of investible funds for social obligations. The savings of the people coming to insurance companies by way of premium have to be channelized into community development, infrastructure development, socially oriented investments, provision for basic amenities in rural areas etc. Towards this, IRDA (Investment) Regulations, 2000, provides for a mandatory minimum of 15% and 10% of Investible funds to be invested in Infrastructure in the case of Life and General Insurance Business respectively.

During the nationalized regime, state owned LIC and GIC along with its four subsidiaries were the only players in the country in life and general insurance business, prior to the advent of IRDA.

2.15 The investment portfolios of the insurance companies were earlier channelized to meet the objectives and priorities of the Government.

- 2.16 As per the recommendations of Malhotra Committee, the controlled investments in Government and approved securities of life insurance companies have been reduced to 50% while that for general insurance companies has been reduced to 30% of investible funds.
- 2.17 Thus a higher amount has been made available to insurers to invest in private and corporate sectors, housing and infrastructure sector, etc., to provide freedom in the structure of the investment portfolio but at the same time aligning it to fit into the overall investment strategy of the insurer. This required the regulators to frame regulations to make insurers properly use the freedom provided, but at the same time, through exposure norms, ensure such flexibility is not used beyond permitted levels.
- 2.18 Therefore, it would be proper to conclude that regulating the investment function in this industry is a necessity even in the market driven economy, as the money involved represents huge 'public savings'. Moreover, what the public invest in insurance companies is out of their savings and not out of surplus, unlike in case of deposits with banks. It is because of this reason the regulations keep 'policyholder protection' as its prime concern. But the regulator to develop the insurance sector allows investing in different investment avenues, by weighing the various risks associated to efficiently serve the policyholders and also ensure an orderly growth of Insurance business. The Audit of investment functions of insurance companies is a necessary effort in this direction.

### **Investment Function of Insurer - Regulatory Framework**

- 2.19 The Insurance Act, IRDA Act and the Regulations made there under which are relevant for the inspection of investment function of Insurance Companies are featured with few technical terms/concepts whose familiarization is critical for the inspector to perform his function. There are references to some other statutes such as Public Debt Act, 1944, Securities Contract Regulation Act, 1956, etc in the above-referred regulations. This chapter lists down all the relevant provisions of the related statutes (regarding those technical terms/concepts) at one place so that it will be like ready reference to the members involved in this exercise.
- 2.20 The primary legislations, which are relevant for investments of insurance companies in India, are as follows:
- Insurance Act, 1938;
  - Insurance Rules, 1939;
  - Insurance Regulatory and Development Authority Act, 1999;

- Insurance Regulatory and Development Authority Regulations issued under IRDA Act, 1999 from time to time;
- Insurance Regulatory and Development Authority (Investment) Regulations, 2000 as amended from time to time;
- Insurance Regulatory and Development Authority (Preparation of Financial Statements etc.) Regulations, 2002;
- Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurance Companies) Regulations, 2000; and
- Circular(s) issued by IRDA on Investment Function and amended from time to time.

### **IRDA (Investment) (Fourth Amendment) Regulations, 2008**

- 2.21 A Working Group was set up by the IRDA, to evaluate comprehensively the regulatory and other provisions on Investments of Insurance companies and propose changes considered essential in the light of experience gained and/or the difficulties faced by Insurance Companies in complying with the various legal and regulatory requirements, as well as the developments in Financial Markets including the emergence of Unit Linked Insurance Policies as one of the most important product portfolio of life insurers.
- 2.22 Accordingly, the Working Group reviewed the statutory provisions on the pattern of Investment, operational and policy issues of Investment Regulations and suggested amendments that would give flexibility to the IRDA with reference to the Regulation on Investment of Life and General Insurance Companies. Apparently the Group also looked into the concurrent modifications in the formats of the prescribed Returns to reflect the changes as evidenced in the revised formats under the IRDA (Investment) Regulations, 2000.
- 2.23 The recommendations of the Working Group was examined by IRDA in the light of legal provisions, keeping in view the interests of the stakeholders.
- 2.24 Accordingly, the Authority amended the provisions of IRDA Investment Regulations 2000 in order to implement the recommendations of the Working Group and also to effect such changes that are considered necessary to clarify the existing regulatory requirements. The IRDA Investment Regulations 2000 as amended by the Insurance Regulatory and Development Authority (Investment) (Fourth Amendment) Regulations, 2008 is given in Appendix 1 to this Technical Guide.

2.25 IRDA has also decided to effect some modifications in the extant Guidelines/Circulars on investment portfolio [Annexure - II to Circular INV/CIR/008/2008-09 dated 22.08.2008 issued by IRDA to Insurers – the said circular has been given as Appendix B to this Technical Guide] and also introduced certain requirement on the Systems/Process of investment in the context of Risk Management requirements. The proposals of IRDA in this regard have been outlined in Annexure – III to Circular INV/CIR/008/2008-09 dated 22.08.2008 issued by IRDA to Insurers (Appendix B to this Technical Guide). This Technical Guide specifically meant for review and certification of Investment risk and management systems of Insurance companies arising out of the IRDA (Investment) (Fourth Amendment) Regulations, 2008 and the circular No. INV/CIR/008/2008-09 Dated August 22, 2008 issued by the IRDA.

### **Scope and Coverage of this Technical Guide**

2.26 While the first Chapter of this Technical Guide is intended to provide a general overview of the insurance sector in India, the second chapter has been structured to present the important issues related to the investment function of insurance companies. Third Chapter of this Guide deals with the role of information system security and audit in the investment risk management systems and processes of insurance companies.

Fourth Chapter of this Technical Guide provides detailed guidance on the review and certification of the Systems / Processes of investment in the context of Risk Management requirements as contained in Annexure III of the aforesaid circular of the IRDA. Suggested Format of the Auditors Report after reviewing the Systems / Processes of investment of insurance companies in the context of Risk Management has been given in the Fifth Chapter.

2.27. Three Annexures to this Technical Guide contains three different checklists templates purposes of which are as under:

- Checklist template prepared to cover some key Regulatory issues that IRDA had in the past identified through periodical Investment Inspections has been given as **Annexure A**.
- Checklist given in **Annexure B** contains the key issues to be addressed while reviewing the Standard Operating Procedures of existing insurance companies with regard to the investment

Operations and risk management systems and processes envisaged by its guidelines Annexure II and III to the circular No. INV/CIR/008/2008-09 Dated 22nd Aug, 2008 issued by the IRDA.

- Checklist given in **Annexure C** covers the information technology related compliance on insurers as envisaged by Regulations 8 under FORM IRDA / R2 Application of Registration in IRDA (Registration of Indian Insurance Companies) Regulations, 2000.

2.28 Insurance Regulatory and Development Authority (Investment) Regulations, 2000 as amended by Insurance Regulatory and Development Authority (Investment) (Fourth Amendment) Regulations, 2008, Circular No. INV/CIR/008/2008-09 dated 22.08.2008 issued by IRDA to Insurers and relevant portions of the Circulars of IRDA on Investment Function of Insurance Companies have been given as **Appendices** to this Guide.

# 3

## INFORMATION SYSTEM SECURITY AND AUDIT

### Introduction

- 3.1. Information systems (IS) play a key role in the operations of a business organization. In fact information is the life blood of business and this is equally true of the Insurance sector. A proper framework that addresses governance, risk and compliance depends on the support of robust IS that ensure confidentiality, integrity and availability of information. Similarly the IS facilities in turn need to be governed by appropriate policies, governed by best practices, guided by specific procedures and supported and manned by trained people. Information Security has assumed great importance due to the growing incidents and threats causing huge losses to business over the years, bringing about legislative and procedural changes in its wake.
- 3.2. The position of the Insurance sector is unique in as much as it has a dual role to play. One, that of protecting and securing its own information and infrastructure to realize its business objectives including managing its investments for security, wealth/value maximization, solvency, liquidity and profitability and the other of promoting better information security through positive reinforcement and reward by providing insurance cover and lower premium for cyber risks of entities that have information security systems in place.
- 3.3. The increasing dependence of Insurance Companies on Information systems brings up issues like – data storage, retrieval, access and processing that is opaque and unintelligible to humans, loss of audit trail, adverse effect on controls – especially segregation of duties, and a lot more.
- 3.4. However, they also provide greater computing power that enables automation of processes and implementation of systems that streamline front, mid and back office operations, enable policy servicing, transparent accounting and customer communication and reporting, market information, valuation, NAV computation, and provide support for other compliance/regulatory requirements.
- 3.5. The important aspects and issues that necessitate inclusion of Information system controls, checks and balances for proper functioning of investment function and management of the risks are outlined below. These will set the tone and provide proper perspective to the guidelines.

## **SECURING AND USING CUSTOMER INFORMATION AND DATA**

- 3.06. Insurance business essentially deals with risk management and by its very nature is privy to sensitive information about customers. Information about their vulnerabilities and risks, their shortcomings and exposures ranging from business risks and exposures in loss of profits, policies relating to diseases, handicaps and family histories in case of health insurance.
- 3.07. It is not just the ethical and moral duty of the insurer to protect the client data and store it securely but also a good business practice to secure it and share it only with authorized partners for permitted purposes.
- 3.08. In the years to come as the Indian Insurance industry expands, goes global and matures, the impact will bring about sweeping changes across the insurance Industry – in the way information is collected, stored, sent and accessed both internally and externally.
- 3.09 This will result in – growth in staffing in the information security sector/ segment, greater surveillance and monitoring mechanisms in place, and growing expenditure on information security. Insurance companies will have to start putting information security policies, procedures and best practices in place and will have to implement information security solutions and audit those at regular intervals.
- 3.10. This will also mean placing restrictions on indiscriminate access and use of customer data for cross selling purposes, and also of selling customer lists and data bases for a price.

## **PREVENTING INSIDER ABUSE**

- 3.11. Insurance companies by their very nature deal with a substantially large client base, their transactions span over a long time period (typically twenty plus years in the case of life policy), are open to abuse and misuse by unscrupulous clients and employees/agents (insurance frauds) and are also exposed to management frauds through misrepresenting accounting estimates and window dressing.
- 3.12. The emergence of corporate governance and the responsibility of quick, timely and accurate reporting of information, now places an extra burden of maintaining confidentiality, integrity and availability of information on insurance companies.

## **PROTECTING DECENTRALIZED DATA**

- 3.13. With the advent of networks, remote and tele-computing and spread of insurance services over geographical area, distributed data processing and multi-user computing has become the order of the day.

- 3.14. Data bases are no longer unified or centralized as in the past. Data is stored on different servers at different locations, needing broader security measures, which will ensure that protection levels are maintained across different networks and platforms.

### **MANAGING LEGACY SYSTEMS AND INTEGRATING SECURITY INFRASTRUCTURE**

- 3.15. Insurers were one of the early users of data processing systems. Electronic Data Processing (EDP) has today grown into Information Technology (IT), but most insurance companies are still flogging the earlier legacy systems and programs which can be seen being used with the latest technology. Given this diversity of systems, using different operating platforms, different network architectures, different types and differing versions of software, ensuring compatibility of security tools and integration of security infrastructure has become a Herculean task, not to mention the challenge of maintaining and ensuring effective and efficient functionality of the entire process.

### **INTERNET/WEB ACCESS TO DATA BASES AND APPLICATIONS**

- 3.16. Most insurance companies, in an attempt to reach a larger number of customers and providing better service and lower cost are web-enabling their businesses especially the delivery systems and interfaces. This has brought the security issues associated with the internet especially- unauthorized access, data modification and analysis, spoofing, passing off, identity theft, denial of service and hacking attacks, web vandalism, mistrust, privacy loss and repudiation – into sharp focus.

### **BALANCING SECURITY AND OPENNESS**

- 3.17. Insurance requires an open environment where customers and agents get maximum access to the required data in an easy convenient way. Security features, which restrict or affect accessibility and ease of use, are bound to turn away customers from the most secure insurance company sites and portals. This is perhaps the biggest quandary in which insurers find themselves today. Ease of use, user-friendly interface and efficiency and innovation leading to fast processing speed and better customer service cannot be compromised by information security applications.

### **KEY ISSUES IN INSURANCE SECTOR**

- 3.18. The key issues for information security in the insurance sector today, apart from putting in place necessary Investment Risk Management Systems and Process are, maintaining privacy and confidentiality of customer information and data, providing authenticity and integrity

of data and transactions, identification of users, non repudiation and preventing unauthorized access, insider abuse and cyber attacks and threats. It also revolves, around ensuring efficiency and effectiveness of information systems and ensuring compliance with laws and building reliable systems.

## **THE ROLE OF IS AUDIT IN INSURANCE SECTOR**

- 3.19. Information System Audit has a significant role to play in the emerging Insurance Sector. Information System Audit aims at providing assurance in respect of Confidentiality, Availability and Integrity for Information systems. It also looks at their efficiency, effectiveness and responsiveness. It focuses on compliance with laws and regulations.
- 3.20. In the context of the growing dependence of Insurance Sector on Information Systems for record keeping, transacting business, reporting, as well as regulatory compliance and providing information and results to stakeholders, Information System Audit has assumed a very significant role. In fact it would not be wrong to say that without effective IS Audit systems being put in place; corporate governance, compliance and effective regulation and risk management of the insurance sector would be a difficult proposition.

## **THE SOLUTION – A PROACTIVE APPROACH**

- 3.21. It is always wise to put in place a proactive approach to security that is based on education, awareness exchange of information, policies, practices, procedures, cooperation and motivation of all concerned that will enable insurers to meet the information security challenges faced, as there will be no wastage of time to take control of adverse situation in the long run. Towards this, in protecting the huge Investments of Insurers, IRDA has recently issued clear guidelines on Investment Risk Management Systems and Process.

## **THE SCOPE**

- 3.22. With a view to addressing the concerns of the Regulator and other stakeholders, the audit for review of investment risk and management system should include within its scope the following minimum areas of information system security and audit:
- i. **Risk Management:** Ensure that the features and system parameters implemented in the system are in accordance with the policies and procedures covered in IRDA Investment Regulations and applicable Guidelines/Circulars.

- ii. **Application Review:** Review and validate that the software used by the insurance companies is in accordance with the security standards and policies and guidelines as prescribed by IRDA.
- iii. **Security Policy and Implementation:** Review the security policy and implementation procedures with a special reference to the Hardware Platform, Network, Operating System, Physical Perimeter, Backups and Databases.
- iv. **Capacity Management:** Assess the planned and existing capacity for growth and adequacy of the current capacity to handle existing and future business.
- v. **Disaster Recovery, Backup and Contingency Planning:** Review of the existing disaster recovery, backup and contingency plans and policies of the insurance companies and verify and assess for the compliance to current policies.
- vi. **Customer Services:** Review the procedures for providing services and communicating with clients/investors.
- vii. **Internal Vulnerability Assessment:** Ascertain the data integrity, availability and security of the key information present in the network and the efficiency, effectiveness, responsiveness and compliance of the IS processing facilities.

## THE APPROACH

3.23. The approach, checklist based audit, should address and cover the following key activities of an Insurance Company:

- i. Understanding the Information Technology Infrastructure as it exists at the location.
- ii. Understanding the business process, related to the Investment function and risk management system.
- iii. Understanding the transaction mechanism and data flow with respect to investment management function.
- iv. Inspection and review of the documented policies and procedures, infrastructure and network diagram.
- v. Collection of evidence in the form of documents, test results, screenshots, confirmations, logs, third party evidence.
- vi. Conducting a risk analysis in the environment to evaluate and test the existing risk management processes and available controls, both system-based and manual.
- vii. Vulnerability analysis and audit of host servers.
- viii. Discussing critical observations/findings with the Insurance company and generating a report to be submitted to IRDA.

# COVERAGE AND METHODOLOGY OF REVIEW

## Introduction

- 4.1. Insurance Regulatory and Development Authority of India (**IRDA**) has amended the Investment Regulations vide notification dated July 30, 2008 and issued IRDA (Investment) (Fourth Amendment) Regulations, 2008. Further vide Circular No. INV/CIR/008/2008-09 dated August 22, 2008 IRDA has introduced specific minimum requirements on the Systems/Process of investment in the context of Risk Management viz. Investment Risk Management Systems.
- 4.2. All Insurance Companies seeking registration with IRDA on or after August 22, 2008 need to comply with Investment Risk Management Systems and Processes as a part of registration process. All existing Life and General Insurance Companies have been required to obtain certificate from a Chartered Accountants firm - that it is not the Statutory or Internal or Concurrent Auditor of the concerned Insurer and has a minimum of three to four years audit experience of IT systems, risk management and process controls of Banks or Mutual Funds or Insurance Companies - to the effect that Investment Risk Management Systems and Processes envisaged in Annexure III of the aforesaid circular are in place and working effectively. Further the Chartered Accountant's certificate needs to be filed with IRDA not later than first week of January 2009.

## MATTERS TO BE INCLUDED IN THE AUDITOR'S REPORT

### 4.3. GENERAL

#### 4.3.1 FRONT & BACK OFFICE OPERATIONS

***Investment Management System (IMS)*** has following generic modules:

- Front Office
- MID Office
- Back Office

#### **BRIEF FEATURES OF IMS MODULES**

##### ***Front Office module (FOS)***

FOS is further divided into **Fund Manager** module and **Dealer** module. Generic features of FOS are:

*It facilitates authorization of deals, order placement and entry of executed deals. It provides analytical tools, facilitates monitoring of investment restrictions, exposure limits and has risk management tools. The cash and securities position can be uploaded in the FOS to facilitate adherence of internal and regulatory limits.*

### **MID Office module (MOS)**

*All investment deals flow from FOS to MOS. **Risk Analysis, risk measurement and Risk Management** are the functions of MID Office. Various risk measurement and management tools are applied to the trades and portfolio in the mid office module. These risk measurement functions are sometimes made part of FOS. However, in banking industry, Risk Analysis and Management function is entrusted with mid office team with the help of MOS.*

### **Back Office Module (BOS)**

*All investment deals flow to BOS from MOS, where the same are settled. In case of equity securities, deals forwarded by dealer are matched with the data of executed deals received from the brokers through Straight Through Process (STP) gate in BOS and confirmation is sent to broker and custodian. In case of debt securities, BOS generates the Counter party confirmation and custody letter for settlement of deals. The deals are pushed for accounting in the form of deal summary or trade blotter from the BOS to Fund Accounting System.*

*An Auditor entrusted with the responsibility of certification of Investment Risk and Management System or otherwise is expected to gather good understanding of the IMS used by the insurer as this is the back bone for investment department of Insurer.*

#### **a. Insurer having Assets Under Management (AUM) in excess of Rs.500 Crores shall ensure separate personnel acting as fund manager and dealer**

This clause requires the auditor to ensure that the insurer having asset under management **(both Shareholders' and Policyholders' investment taken together)** in excess of Rs. 500 Crores has separate Fund Managers and Dealers, for both Equity and Debt portfolio.

#### **The auditor has to confirm that:**

- There are separate Fund Managers and dealers for equity as well as debt segment by reviewing the organization chart of the company.
- Functional responsibilities of Fund Managers and dealers are defined in the Standard Operating Process (SOP)/Operations Manual or Investment Policy.

The auditor should review sample deals, either in software system or hard copies to confirm that all the deals are authorized by Fund Manager and executed by Dealer.

**b. *The Investment System should have separate modules for Front and Back Office.***

*This clause requires the auditor to verify that the investment system has Front Office and Back Office Modules in the IMS.*

*The auditor should review the software system to confirm that it has separate modules for dealing settlement. The auditor should **confirm** that these activities are carried out **by separate officials** with separate logins and passwords. The auditor can confirm this aspect through review of system and observing the process of trade execution and settlement.*

**c. *Transfer of data from Front Office to Back Office should be electronic without Manual intervention (Real time basis) i.e., without re-entering data at Back Office.***

This clause requires the auditor to verify that there is no manual intervention for transfer of data from Front Office/MID Office to Back Office.

The auditor should review the software system to confirm that deals **for all types of securities** captured and authorized in FOS, automatically flow to BOS.

The auditor can review this aspect by entering different types of investment transactions in FOS and confirm that there is seamless flow of deals from FOS to BOS and in turn from Front Office to Back Office.

**d. *The Insurer may have multiple Data Entry Systems, but all such Systems should be seamlessly integrated without manual intervention.***

This clause requires the auditor to report whether manual intervention is required for integration of data entered through multiple data entry systems.

In case of integrated system, usually seamless integration between front office, mid office and back office would exist. The auditor can review this by carrying out the limited review of the system.

In case Front Office, MID Office and Back Office systems are separate, the auditor would have to **ascertain** that,

- These systems facilitate upload between systems with due authentication/validation process that has been duly approved by the Investment Committee of the Insurer.
- No double data entry is required at any point.

The auditor has to review the live operations of the investment department in real time to ascertain the integration of these systems and to verify the approval of the Investment Committee for such integration through upload of data from one system to another system.

- 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 under the overall responsibility of Chief Financial Officer (CFO) who shall independently report to the CEO.***

This clause requires the auditors to ascertain the separation of investment and settlement function.

The auditor should review the following with a focus whether 'investment', 'review & Monitoring' and 'settlement' functions are clearly separated as per SOP as well as through 'internal reporting':

- Organization Chart
- SOPs/Operations Manual/Investment Policy to understand the roles of officials of Front office, Mid office and Back office, CEO, CFO and CIO
- Reporting lines

#### 4.3.2 EMPLOYEE DEALING GUIDELINES

- a. ***The Standard Operating Procedure (SOP) followed by the Insurer shall clearly specify the Guidelines to be adhered 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.***

This clause requires the auditors to comment on employee dealing policy of the Company and adherence to the guidelines laid down in this regard.

The auditor has to confirm that the company has framed Employee Dealing Policy for dealing in securities by:

- Fund Manager
- Dealer

- Research personnel &
- Head of all departments

who possess/are likely to possess insider information (termed as '**Key personnel**').

The Auditor has to verify that the Employee Dealing Policy inter alia contains the following **minimum** criteria:

- i. List of key personnel covered under the employee dealing policy;
- ii. Type of Investments covered such as equity, derivatives, investments in IPO etc.;
- iii. Type of investments which would not be covered by these guidelines;
- iv. Prior approval for dealing in securities from Compliance Officer for any trade;
- v. Validity period of the approval i.e. the period within which a deal needs to be carried out after approval. If the transaction does not take place within the validity period, new approval needs to be obtained.
- vi. Intimation of investment to be filed with Compliance Officer within specified time, say, within 7 days along with the proof of investment;
- vii. Holding period of securities i.e. securities purchased should not be sold for specified period, say, within 30 days of purchase;
- viii. Cooling-off period i.e. the period for the key personnel mentioned above during which they are not allowed to purchase/sale a particular security post transaction by the insurer;
- ix. Restriction on short sale or square-off of the trades during the day;
- x. Obtaining declaration relating to no self-dealing and Front running from key personnel;
- xi. Periodic disclosures of portfolios and transactions, say, quarterly;
- xii. Record keeping by Compliance Officer;
- xiii. Details of penalty or Disciplinary Action for non-adherence;
- xiv. Exceptions to the guidelines;
- xv. Reporting to Board of Directors.

The auditor should review sample transactions to confirm that company complies with the policy.

The auditor should also confirm that the scope of the internal/concurrent audit covers this aspect and the internal/concurrent auditors have commented on the same in their internal/concurrent audit report. This could be checked from engagement letter for the internal/concurrent audit and the internal/concurrent auditors reports submitted.

#### 4.3.3 MAKER/CHECKER PROCESS

- a. ***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.***

This clause requires the auditors to comment upon whether maker/checker process is covered in SOP/operations manual of investment operations and whether adherence of maker checker system is commented on by the internal/concurrent auditor.

The auditor has to **confirm** that the insurer has **SOP/Operations Manuals** covering –

- Investment operations for ALL types of investments such as equity, derivatives, Government Securities, debt and money market instruments
- Cash Management/Treasury operations
- NAV computation, where NAV is computed in-house
- **Valuation** of investments, under both Traditional and ULIP funds
- Empanelment of brokers

Review needs to be carried on the basis of the manuals to ascertain the maker/checker principles are **embedded**. The Auditor should verify whether SOPs/Manuals provide for maker/checker control for all the important functions (**particularly where manual intervention is required**).

The auditor should also look at the processes which need to be carried out manually or require manual intervention such as deal entry, uploading prices for valuation, creation of masters etc. and confirm that the system has in-built maker/checker controls for such processes and are clearly documented and audited periodically for changes recorded.

The auditor should review the scope of Internal/concurrent audit to ascertain the inclusion of verification of maker/checker compliance. He

should also go through the internal/concurrent audit reports to ascertain /concurrent comments on this aspect.

#### 4.3.4 AUDIT TRAIL AT DATA ENTRY POINTS

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

This clause requires the auditor to comment upon the audit trail maintained in the system for various activities.

The auditor should review the FOS, MOS and BOS and confirm that the **system maintains** audit trail for data entry, authorization, cancellation and any subsequent modifications. Further, the auditor shall also ascertain that the system has separate logins for **each user** and maintains trail of every transaction w.r.t. login ID, date and time for each data entry, authorization and modifications.

To gather information, the auditor can interact with system administrator and see the log maintained in the **back-end** of the system for deal entry, authorization, modification and the period for which this log is maintained.

The auditor may enter a few dummy deals for modification and cancellation to check whether the system maintains log of every activity.

#### 4.3.5 BUSINESS CONTINUITY PROCESS

- a. ***To ensure Business continuity, the Insurer should have a clear Off-site Backup 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***

This clause requires the auditor to comment on **adequacy** of Business Continuity Plan of the company.

The auditor has to cover following aspects in his review:

1. Backup procedure (BCP)/Disaster Recovery Policy/ Manual of the company to ascertain if it covers the details of:
  - i. Detailed backup policy for various data bases of the Insurer.

- ii. Various scenarios in which Disaster Recovery site needs to be activated and actions to be taken in such cases.
  - iii. Details of **crisis management team** and **Business Recovery team, roles and responsibilities** of team members.
  - iv. Processes to be carried out in case of disaster including activation of call tree.
  - v. Contact numbers of **ALL** service providers and people in the organization responsible for/expected to involved in the business continuity plan.
  - vi. Critical functions for **EACH DEPARTMENT**, resources required for the same and processes to carry out these functions.
  - vii. Disaster Recovery measures.
2. To ascertain whether the Insurer has its own Disaster Recovery site or an arrangement with service provider for Disaster Recovery site, at a seismic zone other than the one where Investment department is located and from where all operations relating to investment, risk management, settlement, Cash flow preparation, NAV computation, funding for redemption processing can be carried out. The auditor should visit BCP/DR site of the insurer and **ensure** that the site has the following features:
- i. Front Office/Back Office software;
  - ii. Policy servicing software (*for ascertaining the units to be redeemed*);
  - iii. NAV computation software;
  - iv. Bloomberg/Reuters/Television for market information;
  - v. NDS/NDS OM;
  - vi. Bond Valuer or any other software used for valuation;
  - vii. STP gate;
  - viii. Mail Back-up;
  - ix. Back-up of server data to access the contact details of custody, counter parties, brokers etc.;
  - x. Telephones/fax machine/printer etc.;
  - xi. Soft and Hard copy of Standard Operating Procedures (SOP) available at the site.

3. That the insurer has carried out BCP testing **at least** once in a year and has prepared BCP testing report. Verify the **adequacy of the coverage** and whether report was placed before the Audit committee and/or Board of Directors.
4. Review confirmation obtained by the insurer for successful testing of BCP/DRP from the custodian.
5. In case the insurer has outsourced NAV computation activity, report/confirmation on BCP/DRP testing having been obtained from Fund Accountant. The auditor should comment on whether such testing is satisfactory.

## 4.4. FRONT OFFICE

### 4.4.1 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'.***

This clause requires the auditor to confirm that the functions of the Fund Manager and Dealer are separated and clearly defined.

The auditor has to verify that the insurer has investment policy/ SOP clearly defining the roles and functions of Fund Managers and Dealers.

The auditor should peruse the SOP /operations manuals pertaining to Investment operations covering **ALL** types of investments such as equity, derivatives, Government Securities, debt and money market instruments and confirm that SOPs clearly state the activities to be carried out by Dealer and Fund Manager.

- b. ***The Insurer should have documented the Access Controls and Authorization process for Orders and Deal execution.***

This clause requires the auditors to comment on Access control and authorization process in FOS.

The auditor has to undertake the following tasks to comment on this aspect:

- Review the data access and data security policy of the company to confirm that it covers access controls.
- Confirm that Company has approved and updated data access policy which states the access controls for each login ID.

- Review the system to confirm access controls have been defined in the software system for each login such as view, write, modify and authorization rights are defined user wise.
- 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.***

This clause requires the auditors to comment upon voice recording system in the investment operations of the company. The auditor has to undertake the following tasks to comment on this aspect:

- Confirm that company has voice recorder in dealing room and all the dealing room phone lines are connected to the voice recorder.
- Verify that voice recorder is in working condition and has been tested at regular intervals by IT team. That there exists a process to retrieve the recorded voice and listen to the conversation.
- Confirm that tapes/records on which conversations have been recorded are preserved in fireproof cabins.
- Confirm that either mobile jammer is installed in dealing room or mobile phones are not allowed in the dealing room.
- Auditor should also confirm the above aspects by surprise visits to dealing room.

#### 4.4.2 INVESTMENT IN INVESTEE/GROUP COMPANY/INDUSTRY SECTOR

- a. ***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.***

This clause requires the auditor to comment on in-built controls in FOS or MOS to monitor investment restrictions prescribed in the Insurer's Investment Policy and under IRDA (Investment) Regulations.

For this purpose the auditor will undertake the following tasks:

- i. Review the system to check if investment limits have been set w.r.t. Investee company, Group, Industry sector, rating, other investment etc. as prescribed under IRDA Regulations and internal limits adopted, if any, by the company.

- ii. Verify whether a report could be generated from the system enlisting these limits.
- iii. Check if soft limits<sup>1</sup> can be set in the system or that the system sends out alerts on nearing the set limit.
- iv. Confirm that system gives alert or sends exception report to Compliance Officer/CIO on breach of soft limit on real time basis.
- v. Verify that system does not accept trade which would exceed the hard limit i.e. regulatory limit.
  - In case of internal limits, check these aspects by carrying out review of the system and also by *entering a few sample deals* in FOS to verify that the rules are in-built in the system and they cannot be breached.
  - Review the exception reports generated if any.

#### 4.4.3 INTER-FUND TRANSFER

- a. ***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 during the Market hours only)***

This clause requires the auditor to assess system's capability for carrying out inter fund transfers in accordance with the regulation.

IRDA Circular No. IRDA-FA-02-10-2003-04 states that:

- a. Transfer from shareholder's fund to Policyholder's fund should be at cost or market price whichever is lower. Debt securities should be transferred at amortized cost.
- b. Transfer between policyholders' funds:
  - In case of non-linked business, inter-fund transfer is not allowed.
  - In case of unit linked business, inter-fund transfer is allowed at market price of the investment.
- c. In case of small sized funds i.e. where policyholders' funds are less than Rs. 50 crores, sale of security at market price is allowed from shareholders' funds to policyholders' funds (and not vice-versa) subject to certain conditions stated in the circular.

The auditor should review whether the system is capable of **ensuring**

adherence to the aforesaid restrictions on inter-fund transfer. He has also to verify whether system can **prevent** processing of inter-fund trade if carried out beyond market hours set as per the nature of security. For this, the auditor has to understand and check the controls set in the system. The auditor can use dummy trades of inter-fund by which system controls could be confirmed.

## 4.5 MID OFFICE

### 4.5.1 MARKET RISK

**a. *The system should be capable of computing various portfolio returns***

This clause requires the auditor to comment on system's capability in computing *risk adjusted portfolio returns*.

Various ratios are used to measure the risk associated with the portfolio and the return such as Sharp ratio, Tenor ratio, Sortino ratio, Stress testing, Back testing. The auditor should verify whether MOS or FOS or any other software acquired by the company is capable of computing these ratios.

The auditor should verify whether the process of computing Portfolio return analysis, if any, has been stated in the SOP or Operations Manual.

**b. *Regular limits monitoring and Exception Reporting. Also reporting on movement of prices***

This clause requires the auditor to comment on the process of monitoring regulatory limits and movement in prices. The auditor should

- Verify that FOS or MOS monitors all the Regulatory limits on Exposure and Rating. FOS/MOS would have list of regulatory limits set in it. The auditor can confirm the function of limit monitoring by entering the sample/dummy deals in the system for various types of securities.
- The auditor has to ensure that regulatory limits set in the system are hard limits which cannot be breached.
- He should confirm that the right to set and modify such limits **does not** rests with front office or back office officials (this authority should be with Compliance Officer/Risk Officer).
- The auditor has to ascertain if system generates exception reports for breach of limits prescribed in the system.

- He should also ascertain whether the system has the capability to monitor price movement of securities held in the portfolio and parameterized reporting of exceptional price movement and its impact on the overall portfolio values.

#### 4.5.2 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.***

This clause requires the auditors to comment on robustness of cash management system to preempt leveraged positions or liquidity risk.

Robust cash management system provides current and projected **fund wise** cash flow, without manual intervention, which facilitates accurate deployment of funds. With the help of **integrated** cash management system, funds availability serves as additional precondition to comply within the FOS, before accepting any trade. To comment on the adherence to this requirement the Auditor-

- should **ensure** that Cash Management System is **not** managed using Spread Sheets.
- needs to verify that there exists an efficient cash flow management system through software, which would provide the exact cash position to Fund Manager from time to time to avoid any leveraged position, illiquidity risk as well as idle cash balances.
- should verify on sample basis the bank balances and ensure that there are **NO** instances of idle bank balances as well as overdrawn bank balances and cash management system is indeed implemented.
- should report the software/systems used for cash management.

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

This clause requires the auditor to comment on the capability of system to prevent the dealing beyond funds available.

The auditor should confirm that the FOS has 'in-built' control for not to allow any trade beyond the available cash except in case of trades for settlement date other than T date. This aspect could be ascertained by review of system and also through putting sample dummy deals in the system.

#### 4.5.3 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.***

This clause requires the auditor to comment on whether Form 2 can be generated from IMS or any other software used by the insurer.

The auditor should understand the process of generating Form 2 and ascertain if it is generated using system support. The auditor should verify on sample basis that down grade in the rating are properly reflected in the Form 2 prepared through system.

The auditor should also verify that the security master contains the mandatory field as rating of the security and the insurer has put in place a system to review the investment ratings of the securities and make amendments to rating in security master, if there is a downgrade in the instrument rating.

- b. *System should automatically monitor various Regulatory limits on Exposure & Rating***

This clause requires the auditor to comment on ability of the IMS to monitor adherence of regulatory limits on exposure and rating on a regular and ongoing basis.

The auditor should review the FOS or MOS to check if various exposure and rating wise investment limits set in the system are mapped with the actual exposure of the fund wise portfolio on periodical basis (daily in the case of Unit linked portfolio), and a report is generated by the system.

To ascertain the system's capability, the auditor should verify the reports generated by the system in this regard; dummy deals may be entered to check the systems functionality.

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

This clause requires the auditor to comment on system/procedure at the insurer for tracking the changes in the ratings of the security and classification of the investments.

The auditor should verify whether there is a system in place to ensure that instruments downgraded below the minimum rating requirement for classification under 'Approved Investment' category as per Investment Regulations, are listed under 'Other Instruments' Investment category.

To this end, the Auditor should verify that:

- the Security master of FOS contains the mandatory field of rating and classification of security as approved and other investments. The System should not allow creation of master without entering these details.
- the insurer has a system to monitor the ratings of the security. For that, check if the insurer has any sort of arrangement to receive update on rating of the security. *It may be specifically noted that the credit Rating should always be security-wise and **NOT** issuer-wise.*
- the security wise rating received can be uploaded in the securities master to pick-up the revised rating that would be ideal. Alternatively, check whether a particular official is assigned the job of tracking the changes in the rating of the securities in the portfolio and updating the security master which would update the classification of securities accordingly. (The User rights assigned to the Officer updating the Security Master for rating changes should be specifically commented by the Concurrent Auditor as to whether the same is properly documented and periodically audited.)

Verify whether system automatically changes the classification of the security on change of rating wherever necessary in accordance with the IRDA (Investment) Regulations. Also verify on such changes, whether exception report is generated by the system for the use of compliance officer/risk officer and chief of Investments.

Regarding system ability to classify investment in 'Approved' and 'Other investment', the auditor has to verify whether the system has the ability to classify the asset as approved or otherwise based on various parameters of classification prescribed under Regulation such as dividend track record, rating, secured, investment more than the limit prescribed.

Verify that the process followed by the company in monitoring of changes in the rating and classification of asset is properly covered in the SOPs of the Company.

**d. *The Insurer should conduct periodic credit reviews for all companies in the portfolio. The periodicity should be clearly mentioned in the Investment Policy.***

This clause requires the auditors to comment on system/procedure of the insurer for carrying out periodic credit reviews of all the companies in the portfolio.

The auditor has to understand the process followed by the company for periodic credit review of the companies in whose debt securities, the insurer has made investments. The reviews are carried out by a separate team such as a research team. The auditor has to ascertain and comment on the adequacy of credit reviews carried out by the insurer during the last one year and of the system support, if any, available for such review.

The auditor should review the Investment Policy to ascertain the mandate given by the Investment Policy for credit rating along with the periodicity.

- 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.***

This clause requires the auditor to comment on the process of the insurer for tracking the change in the status of the securities from Approved to other investments and vice-versa.

The auditor has to review the process followed by the company to track the change in the investment status of the investment. For this, review the change in the classification of asset made by the Company. Peruse the SOPs to understand the process specified by the Company for such monitoring and reclassification.

Ascertain audit trail i.e. date of change, reason for the change, that is maintained for any change in the asset classification ideally through the system. Review MIS reports prepared for reclassification of investment, if any. The auditor should obtain a trail from the system or otherwise, for any such changes and **confirm** that audit trail of all such changes has been maintained at security level.

#### 4.5.4 TRACKING OF REGULATORY LIMITS

- a. ***The System should have key limits pre-set 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 be breached.***

For Guidance on how to confirm the adherence by the Insurer to this requirement, please refer to guidelines given for clause No. 4.4.2.a. and 4.5.3.b.

- b. ***The System should have capability of generating Exception reports for Audit by Internal/Concurrent Auditor***

This clause requires the auditor to comment on the systems of the insurer to generate exception reports pertaining to investments.

Exception reports relating to investment function should, inter alia, include – Change in the rating of the debt security, change in the status of investment from approved to other investment or vice-versa, non receipt of interest or redemption amount, non compliance of various prudential norms prescribed under IRDA (Investment) Regulations and various circulars and guidelines issued under the Regulation, non compliance of various internal limits set by the insurer.

The auditor has to review capability of IMS in generating such exception reports. For ascertaining this aspect the auditor may feed dummy deals in the IMS.

#### 4.5.5 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.***

This is similar to clause 4.5.4.b above. Further, the auditor is required to comment whether software system (IMS) could track and report independently internal limit breaches (i.e., without manual invention).

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

This clause requires the auditor to comment on the implementation and review of guidelines prescribed in the Investment Policy adopted by the insurer.

The auditor has to ascertain that the insurer has prepared an Investment Policy in accordance with the Regulation 9 of the IRDA (Investment) Regulations, and it has been approved by the Board of Directors.

Investment Policy prescribes various guidelines for conducting the investment operations including Asset Liability Management.

The auditor also needs to confirm that insurer has:

- a. A mechanism to address the Asset Liability Management
- b. Reviewed implementation of Asset Liability Matching mentioned in the Investment Policy and the same has been presented to Board on periodic basis at a frequency of not later than six months.
- c. Carried out corrective actions, if any, as directed by the Board of Directors (BoD).

## 4.6. BACK OFFICE

### 4.6.1 DATA INPUT ERROR

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

This clause requires the auditor to comment on the access rights defined in the system for deal entry and modification.

Once a deal is concluded by the front office it flows to back office for settlement. The creator of the trade is front office and the job of the back office is restricted to verification of trade and then settlement. In view of this back office should not have access rights to modify the terms and if any discrepancy is noticed, ideally, the deal needs to be rejected and pushed back to front office.

The auditor will verify if access rights are defined for each user and back office officials have only view rights and not the edit rights for deal entry.

The auditor should verify this aspect through system review as well as by actually trying to modify the deal in the BOS.

### 4.6.2 SETTLEMENT RISK

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

This clause requires the auditor to ascertain that FOS has inbuilt controls to prohibit sale of securities not held in the portfolio.

The auditor should review the process to confirm there is a process to receive the data from the custodian for saleable quantity and upload it in FOS. The auditor should confirm that FOS contains a restriction for sale of security beyond saleable quantity. The auditor should confirm the same by putting dummy deals in FOS.

### 4.6.3 COMPUTATION OF 'NAV'

- a. ***The System should be capable of computing NAV and comparing it with the NAV computed by the Service provider, if it is outsourced.***

This clause requires the auditor to comment on capability of IMS or Fund Accounting System to compute NAV. The auditor is also required to comment on the process of verification of NAV in case NAV function is outsourced.

In case, NAV computation is carried out in-house, the auditor should confirm that system computes the NAV for each fund and plan without

any manual intervention. (***Manual uploads of valuation inputs received, if any, from the external sources should be considered as manual intervention***). This could be verified by reviewing the process of NAV computation in its entirety.

In case NAV has been outsourced, the auditor has to verify that company has a system in place to verify the NAV computed by service provider with the use of analytical techniques. This could be checked by review of working notes prepared/maintained by the insurer for NAV verification.

**b. *The Insurer should maintain NAV history (Fund wise) in his Public Domain from the Start of the Fund to Current Date***

The auditor should visit the website of the insurer to ascertain fund wise and plan-wise data of daily NAV is available since beginning on the website of the company and is easily accessible to the user.

**c. *'NAV' error – Computation and 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%.***

This clause requires the auditor to comment on the process of NAV computation, particularly with focus on accruing income and expenses on daily basis.

The auditor is required to:

- Review SOP prepared for NAV computation and ascertain the appropriateness of the method prescribed for deal booking, valuation, corporate action\*, interest accrual, amortization, unit capital accounting, expenses accrual etc. Verify on sample basis NAV computation for different funds to ascertain that correct method is followed for NAV computation.

In case NAV computation is outsourced, then the auditor has to examine the NAV computation process followed at service provider to ascertain its appropriateness.

The auditor has to verify that all the major expenses are accrued on daily basis and other expenses at least on weekly basis only if non-accrual on daily basis does not impact NAV by 1% or more.

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\* Such as Stock Splits, Dividend, Rights Issues, Buy Back, Bonus Issues etc.

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 the transaction. Provided that the non-recording does not affect the NAV calculations by more than 1%.***

This clause requires the auditor to comment on promptness in recording of investment and unit related transactions.

The auditor has to

- Verify that all the investment deals and unit capital related transactions are accounted on a daily basis. He should peruse the SOP to understand the process defined for recording of investment transactions and particularly for unit capital transactions.
- Understand the process of recording missed transactions if any and whether there exists of a mechanism to ascertain the impact of such omission and corrective action taken on the same.

If the insurer's accounting process is such that the transactions are not recorded on the same day, then what is the impact of non recording of transactions on daily basis, on the NAV and the delay in accounting is not beyond seven days, needs to be ascertained and commented upon.

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:-***

This clause requires the auditor to comment on process of compensating the investor in case of mistake in plan wise NAV of more than 1%.

The auditor has to ascertain the instances of mistakes in NAV. This could be ascertained by –

- Reviewing Instances of revision in NAV post declaration
- Reviewing MIS report if any prepared for mistakes in NAV computation
- Review of audit committee meetings
- Review of internal/concurrent audit report
- Obtaining instances of mistakes in NAV from the service provider in case NAV computation is outsourced

The auditor has to verify the process followed by the Company for compensating investor due to mistakes in NAV computation and to

state whether the process is in line with the clauses given below. Also, to verify whether a log of NAV errors is maintained in the system, and internal/concurrent auditor has commented on these mistakes.

- 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.
- 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.
- 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 ongoing basis.

#### 4.6.4 ERRORS DURING BROKER EXECUTION LEG

- a. *All Equity deals should be through STP gateway for all broker transactions.***

This clause requires the auditor to comment on whether all equity deals are settled by Straight Through Process (STP).

All mutual funds, financial institutions, banks, insurance companies tie up with the service provider for STP. All deals entered in FOS by dealer are matched with STP files received from the broker in the BOS. BOS matches the deals and generates the files to be sent to custodian for settlement. These files are sent to custodian without any manual intervention.

The auditor should confirm that deal matching and settlement takes place through STP as stated above. This could be checked by actually reviewing the day end process at investment department.

#### 4.6.5 UPLOADING OF VALUATION PRICE FILES

- a. *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.***

This clause requires the auditor to comment on the capability of the Fund Accounting system to compute NAV with least manual intervention.

The auditor has to verify that Fund Accounting system supports upload of:

- Deals from BOS

- Corporation actions\* data received from custodian
- Valuations received from Gilt Valuer, Bond Valuer, FIMDA, BSE/ NSE etc.
- Units data received from Policy Admin System

The auditor should also confirm that Fund Accounting system computes interest, amortization, expenses etc. and there is **no manual intervention** needed.

The auditor has to review the whole process of NAV computation and confirm it.

#### 4.6.6 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, Unit reconciliation with Policy Admin. Systems should be ensured on a day-to-day basis.***

This clause requires the auditor to comment on reconciliation process of the insurer.

The auditor must review the SOPs to understand the process and responsibilities specified for various reconciliations. They also have to review the process of **fund wise, plan wise** reconciliation on sample basis for:

- Securities balance as per the books of account with the custodian records
- Bank Accounts
- Units Capital reconciliation –
  - ◆ Subscription reconciliation i.e. balances as per books of account, balance as per Policy Admin records and funds received for subscription
  - ◆ Redemption reconciliation i.e. balance as per books of account, balance as per Policy Admin System, and funds paid for redemption
  - ◆ *Switch reconciliation i.e. balance as per books of account, balance as per Policy Admin System and funds transferred for switch*

and **specifically comment** on whether the above are done on a day-to-day basis.

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\* Such as Stock Splits, Dividend, Right Issue, Buy back, Bonus Issues etc.

- 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.***

The auditor has to review the process as explained in para 6 (a) except for unit capital reconciliation.

#### **4.7 INTERNAL/CONCURRENT AUDIT**

- a. *An Insurer having Assets Under Management (AUM) of not more than Rs.1000 Crores shall conduct a Quarterly Internal Audit to cover both Transactions and related Systems. Insurers having AUM above Rs.1000 Crores should appoint a Chartered Accountant firm for Concurrent Audit to have the transactions and related Systems audited.***
- b. *The Audit Report shall clearly state the observation at transaction level and its impact, if any at System level. The Audit Report shall be based on Exception Reporting.***
- c. *The Auditor shall clearly state that the Insurer had done the reconciliations as required under point 4.6.6.a and 4.6.6.b***
- d. *Segregation of Shareholders & Policyholders' funds:***
1. In the case of a Life Insurer, each individual fund, both falling under Shareholder/Policyholders', under any class of business, has 'scrip' level investments to comply with the provisions of Section 11(1B) of Insurance Act, 1938
  2. Furthermore, the Shareholders funds beyond Solvency Margin, to which the pattern of Investment will not apply, shall have a separate custody account with identified scrips for both Life and General Insurance Companies.
- e. *The Insurer is required to place the Audit Report before the Audit Committee and implement all its recommendations.***
- f. *The Insurer shall, along with Quarterly Investment Returns to be filed with the Authority, confirm in FORM 4, that the Internal/ Concurrent Audit observations, up to the Quarter preceding the Quarter to which the Returns are filed, were placed before the Audit Committee for its recommendations and action taken.***

**Note: Points 4.3.5.a.1 and 4.6.3 are specific to ULIP Business.**

The auditor has to report on the scope and coverage of the internal audit in line with the areas stated under this clause.

As IRDA has prescribed requirement of concurrent audit, beyond Rs. 1000 Crores of AUM (Shareholders' and Policyholders' funds taken together) for investment operations to be carried out by the independent chartered accountant, if the insurer has not appointed the concurrent auditor, then the auditor has to state the plan of action of the insurer.

## 5

# SUGGESTED FORMAT OF AUDIT REPORT

To the Board of Directors,

***[Insert name of the insurance company]***

We have examined the compliance of conditions of investment risk management systems & processes of ***[Insert name of the insurance company]*** (the 'Company') as stipulated in Annexure III of IRDA Circular Ref. INV/CIR/008-2008-09 on IRDA (investment) (Fourth Amendment) Regulations, 2008 (the 'Circular') issued by the Insurance Regulatory and Development Authority ('IRDA'), as on ***[insert date]***.

The design and implementation of the investment risk management systems and processes in accordance with the Circular and compliance thereto is the responsibility of the Company's management. Our responsibility is to examine the procedures, and implementation thereof, adopted by the Company for ensuring compliance with the Circular and state our findings.

*An examination of the Company's compliance with the Circular includes examining, on a test basis, evidence supporting the management's compliance with requirements of the Circular. 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 or equivalent]** & **[the Chief Executive Officer or equivalent]**, (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 (Annexure B/C/D - Enclosed duly signed by us under reference to this certificate) issued by the Institute of Chartered Accountants of India in this connection.]** Our examination was performed in accordance with the Guidance Note on Audit Reports and Certificates for Special Purposes issued by the Institute of Chartered Accountants of India ("ICAI"). We believe that our examination provides a reasonable basis for our certificate.*

We have not performed an audit, the objective of which would be the expression of an opinion on the financial statements, specified elements, accounts or items thereof, for the purpose of this certificate. Accordingly, we do not express such opinion.

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***

1.....

2..... ]

We certify that the Company has complied with the conditions of investment risk management systems and processes as stipulated in the Circular.

The key areas of non-mitigated/residual risk resulting from deficient investment risk management systems and processes identified by us during our examination are given in Annexure A appended herewith.

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

***[Name of the Chartered Accountant firm]***

Chartered Accountants

***[Name of the Chartered Accountant]***

Place:

Partner

Date:

***[ICAI membership number]***

## ANNEXURE A

(FORMING PART OF OUR AUDIT CERTIFICATE DATED \_\_/\_\_/\_\_)

Insurance Company Name : \_\_\_\_\_

Date(s) of Audit : \_\_\_\_\_

### SUMMARY

CATEGORY	NO. OF OBSERVATIONS
<b>INVESTMENT OPERATIONS (IO)</b>	
Very Serious Irregularities (VSI)	
Serious Irregularities (SI)	
Procedural Irregularities (PI)	
<b>SUPPORT IT SYSTEMS (SIS)</b>	
Very Serious Irregularities (VSI)	
Serious Irregularities (SI)	
Procedural Irregularities (PI)	

### KEY FINDINGS

NO.	OBSERVATION, RISK AND ROOT CAUSE	RECOMMENDATION	IO/SIS	VSI/SI/PI
1				
2				
3				
4				
5				

**[Name of the Chartered Accountant firm]**

Chartered Accountants

**[Name of the Chartered Accountant]**

Place:

Partner

Date:

**[ICAI membership number]**

## **ANNEXURE B/C/D**

**(FORMING PART OF OUR AUDIT CERTIFICATE DATED    /    /    )**  
Detailed report in the prescribed checklist format [given as **Annexure ‘A/B/C**  
**(as the case may be)’** of this Technical Guide].

# **ANNEXURES**

## **CHECKLISTS FOR COMPLIANCE AS PER THE REQUIREMENTS OF IRDA**

## **ANNEXURE 'A'**

### **COMPLIANCE CHECKLIST TO BE SUBMITTED ALONG WITH APPLICATION UNDER 'R2'**

## BACKGROUND AND SCOPE

On issuance of an R1 certificate, an Insurer has to comply with certain requirements (*conditions Precedent*) to obtain R2 and R3. IRDA vide Circular INV/CIR/008/2008-09 dated August 22, 2008 had directed all Insurer to obtain a certificate from a Chartered Accountant for complying with the requirements on Investment Systems and Process before filing for R2/R3. The following is a checklist template prepared to cover all the Regulatory issues that IRDA had in the past identified through periodical Investment Inspections engaging Chartered Accountant.

NO.	CHECKLIST	AUDITORS COMMENTS
1.	If there are any conditions specified in the R1 certificate by IRDA, have these been complied with by the Insurer?	
2.	Has a CEO and CFO been appointed for the Insurer?	
3.	Has an Investment Committee (IC) been constituted?	
4.	Is the insurer's paid up equity capital in excess of Rs. 100 crores in case of General and Re-insurer and Rs. 200 crores in case of Life Companies?	
5.	Have shares been allotted to all shareholders?	
6.	In case where the insurer has foreign entities as its shareholders, is the equity capital held by such foreign entities in accordance with Regulation 11 of IRDA ( Registration of Indian Insurance Companies) Regulations 2000?	
7.	Has the Deposit under Section 7 of Insurance Act, 1938 complied with?	
8.	Has the Insurer opened two separate gilt accounts one specifically for Section 7 deposit (with a clear direction to the Banker that it could be operated only after taking the prior permission of IRDA in writing) and the other for transactions as per Circular on Section 7: Deposit?	
9.	Has the insurer framed an Investment Policy (IP) to comply with IRDA regulations?	

NO.	CHECKLIST	AUDITORS COMMENTS
10.	<p>The IP should cover the following</p> <ul style="list-style-type: none"> <li>Organizational structure relating to investment department and authorization matrix</li> <li>IP should be applicable fund wise, including ULIP funds.</li> <li>All risks should be addressed in IP</li> <li>Internal/Concurrent Audit to review compliance with the provisions of IRDA provisions &amp; IP</li> <li>Segregation of Investment Operations/ functions between Front, Mid &amp; Back Office mandated along with reporting matrix</li> <li>Fund wise performance, to be placed before Board on a Quarterly basis</li> </ul>	
11.	All applicable returns to be filed with IRDA should have been identified and there are clear assignment of responsibilities and procedures to ensure that these are filed within the due dates.	
12.	Has a custodian been identified? Is there a agreement with the custodian clearly specifying the terms and conditions of the arrangements?	
13.	If the custodian has been appointed, is the custodian part of the 'Promoter Group'?	
14.	Is there a process in place for investment reconciliation with custodian certificates?	
15.	Has Delegation of Financial Authority and reporting to Investment Committee/Board determined?	
16.	Have internal reporting guidelines to the Board, IC been framed?	
17.	Has all fees to IRDA been paid based on the class of business of the insurer?	

## **ANNEXURE 'B'**

# **REVIEW OF STANDARD OPERATING PROCEDURE COVERING 'SYSTEMS AND PROCESSES'**

**PRELIMINARIES**

Before proceeding with the audit, the auditor is expected to obtain the following information at the audit location.

<b>NO.</b>	<b>PARTICULARS</b>	<b>DETAILS / REMARKS</b>
1	Location(s) from where Investment activity is conducted.	
2	IT Applications used to manage the Insurer's Investment Portfolio.	
3	Obtain the system layout of the IT and network infrastructure including: <ul style="list-style-type: none"> <li>• Server details,</li> <li>• database details,</li> <li>• type of network connectivity,</li> <li>• firewalls</li> <li>• other facilities/utilities (describe)</li> </ul>	
4	Are systems and applications hosted at a central location or hosted at different office?	
5	Previous Audit reports and open issues/details of unresolved issues from: <ul style="list-style-type: none"> <li>• Internal Audit</li> <li>• Statutory Audit</li> <li>• IRDA Inspection/Audit</li> </ul>	
6	Internal circulars and guidelines of the Insurer.	
7	Standard Operating Procedures (SOP).	
8	List of new Products/funds introduced during the period under review along with IRDA approvals for the same.	
9	Scrip wise list of all investments, fund wise, classified as per IRDA Guidelines, held on date.	
10	IRDA Correspondence files, circulars and notifications issued by IRDA.	
11	IT Security Policy	
12	Business Continuity Plans	
13	Network Security Reports pertaining to IT Assets	

## REVIEW OF SOP

Check if the following are covered in SOP and **also whether they have been adhered** to through interviews, review of documentation, reports and substantial checks.

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
	<b>POLICIES</b>		
1	The CIO, CFO, CEO responsibilities should be clearly laid down and CIO should not be in charge of mid office and back office functions.		
2	Clear guidelines to be adhered by the Dealer.		
3	Clear guidelines to be followed while dealing with intermediaries (brokers, counterparties etc.)		
4	Does Clear Trading guidelines for Personal Investments done by the Investment Team?		
5	Investment Department should have documented the segregation of Fund Managers and Dealers through Authority Matrix as a part of its 'Standard Operating Procedure'. Such segregation should also include segregation of front office, mid office and back office functions. Reporting and compliance should be independent of investment activities.		
6	The Insurer should have documented the Access Controls and Authorization process for Orders and Deal execution.		
7	Provision for conducting periodic credit reviews for all companies in the portfolio. The periodicity should be clearly mentioned in the Investment Policy.		

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
	<b>COMPLIANCE</b>		
8	Procedure for adhering to exposure/prudential norms at the time of making investments.		
9	Coverage of the process of generating and reviewing exceptions reports generated through the System?		
10	Requirement that Insurer is required to keep a track of movement of Securities between Approved and Other Investments Status, as a part of audit trail, and at individual security level.  Proper internal procedures for such classification and also for periodical updation of individual 'fund wise' portfolio, at least on a Quarterly periodicity, for proper Regulatory reporting?		
11	Clearly statement that there cannot be any short sales by insurer. Ensure that the system does not allow short sales.		
12	Coverage of the Dealing Room as well as the availability of a Voice Recorder and procedure for maintaining the recorded conversation and their disposal.		
13	Investments in an Investee Company, Group and Industry Sector should signal when both Internal/Regulatory limits are nearly reached <b>PRIOR</b> to taking such exposure and making actual investment.		

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
14	There should be procedures to ensure that circulars and notices received from IRDA are acted upon.		
15	Procedures to ensure that exposure norms determined by IRDA from time to time are appropriately communicated within the organization, and acted upon.		
16	Coverage of the yearly compliance certificate with regard to section 7 deposit issued to IRDA. Are there procedures on the part of the insurer in governing the deposit made under section 7?		
17	Procedures followed by the insurer to ensure that when corpus size or fund size crosses certain threshold limits defined by IRDA, applicable regulations, circulars and exposure limits are identified and acted upon.		
18	Procedures within the insurer for identifying and assigning outsourcing activities. These should comply with IRDA regulations on outsourcing for insurance companies.		
19	Procedures for empanelment of brokers/agents for investment activities. Such procedures should also specify the limit for each broker/agent.		

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
20	<p data-bbox="247 324 685 433">Has there been an audit of the custodial services to ensure that the service provider</p> <p data-bbox="247 452 685 592">1 Is a regulated custodial service provider with experience and expertise in NAV computation?</p> <p data-bbox="247 611 685 855">2 Is not part of a 'Group' as defined under Regulation 2 (ca) of IRDA (Investment) Regulations, 2000 as amended from time to time and Guidelines issued there under?</p> <p data-bbox="247 874 685 945">3 Complies with all consumer laws and regulations.</p> <p data-bbox="247 964 685 1104">4 Maintains confidentiality and protects data from intentional or inadvertent disclosure to unauthorized persons.</p> <p data-bbox="247 1123 685 1264">5 Has a comprehensive and effective system for disaster recovery and periodic testing of backup facilities.</p> <p data-bbox="247 1283 685 1461">6 Has an adequate system to address all Operational Risks arising out of technology, errors and frauds been put in place?</p> <p data-bbox="247 1480 685 1692">7 Provides full access to all records and other material to the IRDA or its authorised representatives to the same extent as if it were a department of the insurer.</p>		

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
21	The outsourcing agreement with custodian shall contain an exit clause providing for smooth transfer of records and functions to the insurer or its nominated contractor in the event of the outsourcing agreement being terminated, without imposing onerous penalties for termination.		
22	There should be procedures and assignment of responsibilities to ensure that when changes need to be made to system/application parameters consequent to circulars and notices of IRDA, these are communicated to the respective teams, and it is ensured that they are carried out.		
	<b>OPERATIONS &amp; PROCESSES</b>		
23	Insurer Procedure of Maker/Checker mapped in Standard Operating Procedure/Operations Manual of Investment Operations.		
24	Covers activities in NDS system should be available and integrated with SOP covering investment procedures.		
25	Procedures to ascertain cash positions and make investment decisions within available cash positions.		
26	There should be Electronic transfer of Data without manual intervention. All Systems should be seamlessly integrated.		

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
27	Audit Trail required at every Data entry point. Procedures for reviewing and maintaining audit trail.		
28	Is there adequate process to identify all corporate actions?		
29	Is there adequate process to ensure that all the corporate actions have been accounted for?		
30	<p>Coverage of the following with respect to computation of NAV and handling of errors:</p> <ol style="list-style-type: none"> <li>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%.</li> <li>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 upto a period of seven days following the date of the transaction, provided, the non-recording does not affect the NAV calculations by more than 1%.</li> </ol>		

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
	<p>3. In case the NAV of a scheme 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:-</p> <p>(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 scheme and the same shall be borne by the Shareholders.</p> <p>(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 scheme and the same shall be borne by the Shareholders.</p>		
31	Presence of a process for investment reconciliation with custodian certificates.		
32	Provision for in the case of a Life Insurer, fund-wise, reconciled Investment Accounts with Insurer, and Custodian records on day-to-day basis for all types of products.		
33	Provision for: Has the Insurer, in respect of ULIP products, reconciled with Policy Admin Systems, the Units, on a day-to-day basis?		

NO.	ISSUE	COVERED IN SOP	ADHERED TO BY THE INSURANCE COMPANY
34	Provision for: Has the Insurer, in the case of General Insurer/Re-insurer/Health Business, reconciled Investment Accounts with Insurer and Custodian records on a day-to-day basis.		
35	Coverage of the list of day end reports/confirmations to be generated and the process of their review.		
36	Has all the valuation of investments as required in FORM 5 been made in line with IRDA guidelines?		
37	Are there adequate checks to ensure that all the returns filed with IRDA are complete and correct?		

## **ANNEXURE 'C'**

# **INFORMATION TECHNOLOGY RELATED COMPLIANCE ON INSURERS**

### CATEGORISATION OF INSURANCE COMPANIES FOR APPLYING THIS CHECKLIST

No.	Category of the Company	Life Insurers	General Insurers
1	Category 1	Companies with AUM less than Rs. 1000 Crores	Companies with AUM less than Rs. 500 Crores
2	Category 2	Companies with AUM greater than or equal to Rs. 1000 Crores and less than Rs. 5000 Crores	Companies with AUM greater than or equal to Rs. 500 Crores and less than Rs. 1000 Crores
3	Category 3	Companies with AUM greater than or equal to Rs. 5000 Crores	Companies with AUM greater than or equal to Rs. 1000 Crores

1. Section A (General Computer Controls) and Section B (Application Logical Access Controls) of the checklist will be mandatory for all companies.
2. Section C (BCP and DRP evaluation) will be applicable for Category 2 and Category 3 companies only.

**Note:** Assets Under Management (AUM) shall be the aggregate of Shareholders and Policyholders fund.

## PRELIMINARIES

Before proceeding with the audit, the auditor is expected to obtain the following information at the audit location.

NO.	PARTICULARS	DETAILS/ REMARKS
1	Location(s) from where Investment activity is conducted	
2	IT Applications used to manage the Insurer's Investment Portfolio.	
3	Obtain the system layout of the IT and network infrastructure including: <ul style="list-style-type: none"> <li>◆ Server details</li> <li>◆ database details</li> <li>◆ type of network connectivity, firewalls</li> <li>◆ Other facilities/utilities (describe)</li> </ul>	
4	Are systems and applications hosted at a central location or hosted at different office.	
5	Previous Audit reports and open issues/details of unresolved issues from: <ul style="list-style-type: none"> <li>• Internal audit</li> <li>• Statutory audit</li> <li>• IRDA Inspection /audit</li> </ul>	
6	Internal circulars and guidelines of the Insurer.	
7	Standard Operating Procedures (SOP). Should define, workflow, documentation with respect to each activity/or activity cycle.	
8	List of new Products/funds introduced during the period under review along with IRDA approvals for the same.	
9	'Scrip' wise list of all investments, fund wise, classified as per IRDA Guidelines, held on date (including investments held under a Group, Promoter Group of the Insuer).	
10	IRDA Correspondence files	
11	IT Security Policy	
12	Business Continuity Plans (BCP)	
13	Network Security Reports pertaining to IT Assets	

**SECTION 'A' - GENERAL COMPUTER CONTROLS**

<b>NO.</b>	<b>AUDIT OBJECTIVE</b>	<b>AUDITOR'S OBSERVATION</b>	<b>SEVERITY OF NON- COMPLIANCE</b>
<b>SECURITY POLICY</b>			
<b>1.1</b>	<b>INFORMATION SECURITY POLICY</b>		
<b>1.1.1</b>	<b>INFORMATION SECURITY POLICY DOCUMENT</b>		<b>'Very Serious'</b>
	Is there an Information security policy, approved by the management?		
	Does it state the management commitment and set out the organisational approach in managing information security?		
	<p>Does the Information Security Policy cover the following key areas of IT Security</p> <ul style="list-style-type: none"> <li>• Detailed IT Security Policy and Procedures</li> <li>• Organisation and security</li> <li>• Asset Classification and Control</li> <li>• Personnel Security</li> <li>• Physical and Environmental Security</li> <li>• Communications and Operations Management</li> <li>• Access Control</li> </ul>		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	<ul style="list-style-type: none"> <li>• Systems Development and Maintenance</li> <li>• Information Security Incident Management</li> <li>• Business Continuity Management</li> <li>• Compliance requirements to Policies and Procedures</li> </ul>		
	Whether the Security Policy has been published and communicated as appropriate to all employees?		
	Are new members of staff made aware of Information Security Policy?		
<b>1.1.2</b>	<b>IMPLEMENTATION OF SECURITY POLICY</b>		<b>'Very Serious'</b>
	Whether documented security policy is made available to all the levels of users to the extent relevant to them?		
	Whether continuous awareness programmes are conducted for security awareness?		
	Whether the role of Information Security Officer with responsibilities for implementation of the Security Policy has been assigned?		
	Whether detailed procedures for each policy statement are developed?		
	Whether incidence-reporting procedures have been followed?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	<p>Whether the Information Security Officer is made responsible for:</p> <ul style="list-style-type: none"> <li>◆ Reporting non-compliance with the approved policy,</li> <li>◆ Incidents of security breaches to the Top Management,</li> <li>◆ Initiating and effecting corrective action.</li> </ul>		
<b>1.1.3</b>	<b>REVIEW AND EVALUATION</b>		<b>'Procedural'</b>
	<ul style="list-style-type: none"> <li>◆ Whether the Security policy has an owner,</li> <li>◆ Who is responsible for its maintenance and</li> <li>◆ Reviewed according to a defined review process.</li> </ul>		
	Whether the process ensures that a review takes place in response to any changes affecting the basis of the original assessment? for example: significant security incidents, new vulnerabilities or changes to organisational or technical infrastructure.		
<b>ORGANISATIONAL SECURITY</b>			
<b>2.1</b>	<b>INFORMATION SECURITY INFRASTRUCTURE</b>		<b>'Procedural'</b>
<b>2.1.1</b>	<b>MANAGEMENT INFORMATION SECURITY FORUM</b>		
	Whether there is a management forum to ensure there is a clear direction and visible management support for security initiatives within the organisation?		
<b>2.1.2</b>	<b>INFORMATION SECURITY COORDINATION</b>		<b>'Procedural'</b>

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether there is a cross-functional forum of management representatives from relevant parts of the organization to coordinate the implementation of information security controls?		
<b>2.1.3</b>	<b>IT SECURITY GUIDELINES AND PROCEDURES</b>		<b>'Serious'</b>
	Does the organization have a detailed IT Security Guidelines and procedures manual?		
	Is there a process of reviewing and updating these manuals at periodic intervals?		
	Are people at the location given access to those sections of the security concept which directly concern them?		
<b>2.1.4</b>	<b>PC USAGE GUIDELINES</b>		<b>'Procedural'</b>
	Have PC Use Guidelines been established?		
	How is compliance with the PC Use Guidelines monitored?		
	Does every PC user have a copy of these PC Use Guidelines?		
<b>2.1.5</b>	<b>ALLOCATION OF INFORMATION SECURITY RESPONSIBILITIES</b>		<b>'Procedural'</b>
	Has an IT Security Officer been appointed?		
	Whether responsibilities for the protection of individual assets and for carrying out specific security processes are clearly defined?		
	Is there an establishment of a suitable organisational structure for IT security?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>2.1.6</b>	<b>AUTHORISATION PROCESS FOR INFORMATION PROCESSING FACILITIES</b>		<b>'Procedural'</b>
	Whether there is a management authorisation process in place for any new facilities such as <ul style="list-style-type: none"> <li>• Hardware</li> <li>• Software</li> <li>• information processing facility</li> <li>• changes to configurations in existing Assets.</li> </ul>		
	Are log-books kept of system changes?		
	Are there any guidelines for implementing changes to IT components, software or configuration data?		
	Are all changes documented?		
<b>2.1.7</b>	<b>INDEPENDENT REVIEW OF INFORMATION SECURITY</b>		<b>'Procedural'</b>
	Whether the implementation of security policy is reviewed independently on regular basis? This is to provide assurance that organisational practices properly reflect the policy, and that it is feasible and effective.		
<b>2.2</b>	<b>SECURITY OF THIRD PARTY ACCESS</b>		
<b>2.2.1</b>	<b>IDENTIFICATION OF RISKS FROM THIRD PARTY</b>		<b>'Procedural'</b>
	Whether risks from third party access are identified and appropriate security controls implemented?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether security risks with third party contractors working onsite was identified and appropriate controls are implemented?		
<b>2.2.2</b>	<b>SECURITY REQUIREMENTS IN THIRD PARTY CONTRACTS</b>		<b>'Serious'</b>
	Whether there is a formal contract containing, or referring to, all the security requirements to ensure compliance with the organization's security policies and standards?		
<b>2.3</b>	<b>OUTSOURCING</b>		
<b>2.3.1</b>	<b>SECURITY REQUIREMENTS IN OUTSOURCING CONTRACTS</b>		<b>'Serious'</b>
	<p>Whether security requirements are addressed in the contract with the third party, when the organization has outsourced the management and control of all or some of its information systems, networks and/ or desktop environments?</p> <p>The contract should address how the legal requirements are to be met, how the security of the organization's assets are maintained and tested, and the right of audit, physical security issues and how the availability of the services is to be maintained in the event of disaster.</p>		
<b>ASSET CLASSIFICATION AND CONTROL</b>			
<b>3.1</b>	<b>ACCOUNTABILITY OF ASSETS</b>		
<b>3.1.1</b>	<b>INVENTORY OF ASSETS</b>		<b>'Very Serious'</b>
	Whether an inventory or register is maintained with the important assets associated with each information system?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether each asset identified has an owner, the security classification defined and agreed and the location identified?		
	Is there an <i>up-to-date</i> networking plan?		
	Is the inventory schedule and networking plan reviewed at <ul style="list-style-type: none"> <li>regular intervals to ensure that they are complete</li> <li>up-dated</li> </ul>		
	Are all the system configurations properly documented?		
	Is the configuration document regularly updated as per a fixed schedule?		
<b>3.2</b>	<b>INFORMATION CLASSIFICATION</b>		
<b>3.2.1</b>	<b>CLASSIFICATION GUIDELINES</b>		<b>'Procedural'</b>
	Whether there is an Information classification scheme or guideline in place; which will assist in determining how the information is to be handled and protected?		
<b>3.2.2</b>	<b>INFORMATION LABELLING AND HANDLING</b>		<b>'Procedural'</b>
	Whether an appropriate set of procedures are defined for information labeling and handling in accordance with the classification scheme adopted by the organization?		
<b>3.3</b>	<b>CORRECT DISPOSAL OF RESOURCES REQUIRING PROTECTION</b>		<b>'Procedural'</b>

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Is there a policy of identifying resources and media based on their level of sensitivity?		
	Is there a disposal process commensurate with each level of sensitivity?		
	Are the specified disposal provisions complied with?		
	Is the disposal procedure reliable?		
<b>PERSONNEL SECURITY</b>			
<b>4.1</b>	<b>SECURITY IN JOB DEFINITION AND RESOURCING</b>		
<b>4.1.1</b>	<b>INCLUDING SECURITY IN JOB RESPONSIBILITIES</b>		<b>'Procedural'</b>
	Whether security roles and responsibilities as laid in Organization's information security policy is documented where appropriate?		
	<p>This should include general responsibilities for:</p> <ul style="list-style-type: none"> <li>• implementing or maintaining security policy,</li> <li>• specific responsibilities for protection of particular assets,</li> <li>• extension of particular security processes or activities.</li> </ul>		
<b>4.1.2</b>	<b>PERSONNEL SCREENING AND POLICY</b>		<b>'Procedural'</b>

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	<p>Whether verification checks on permanent staff were carried out at the time of job applications?</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>• character reference,</li> <li>• confirmation of claimed academic,</li> <li>• professional qualifications,</li> <li>• independent identity checks.</li> </ul>		
<b>4.1.3</b>	<b>CONFIDENTIALITY AGREEMENTS</b>		<b>'Procedural'</b>
	Whether employees are asked to sign Confidentiality or non-disclosure agreement as a part of their initial terms and conditions of the employment?		
	Whether this agreement covers the security of the information processing facility and organisation assets?		
<b>4.1.4</b>	<b>TERMS AND CONDITIONS OF EMPLOYMENT</b>		<b>'Procedural'</b>
	<p>Whether terms and conditions of the employment covers the employee's responsibility for information security, where appropriate:</p> <ul style="list-style-type: none"> <li>• At the joining date</li> <li>• At time of internal transfers</li> <li>• On termination/end of the employment.</li> </ul>		
<b>4.2</b>	<b>USER TRAINING</b>		
<b>4.2.1</b>	<b>INFORMATION SECURITY EDUCATION AND TRAINING</b>		<b>'Procedural'</b>

<b>NO.</b>	<b>AUDIT OBJECTIVE</b>	<b>AUDITOR'S OBSERVATION</b>	<b>SEVERITY OF NON- COMPLIANCE</b>
	Whether all employees of the organization and third party users (where relevant) receive appropriate Information Security training and regular updates in organisational policies and procedures?		
	Is the IT Security Management Team involved in the planning and delivery of IT training?		
<b>4.3</b>	<b>RESPONDING TO SECURITY INCIDENTS AND MALFUNCTIONS</b>		
<b>4.3.1</b>	<b>REPORTING SECURITY INCIDENTS</b>		<b>'Procedural'</b>
	Whether a formal reporting procedure exists, to report security incidents through appropriate management channels as quickly as possible?		
	Are the users regularly advised of the requirement to inform the administrator at once in case of irregularities?		
<b>4.3.2</b>	<b>REPORTING SECURITY WEAKNESSES</b>		<b>'Procedural'</b>
	Whether a formal reporting procedure or guideline exists for users, to report security weakness in, or threats to, systems or services?		
	Are staff members informed in a suitable form of IT security incidents which have occurred either within the organisation or which has become public knowledge, and are they told how to avoid them?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>4.3.3</b>	<b>REPORTING SOFTWARE MALFUNCTIONS</b>		<b>'Procedural'</b>
	Whether procedures are established to report any software malfunctions?		
<b>4.3.4</b>	<b>LEARNING FROM INCIDENTS</b>		<b>'Procedural'</b>
	Whether there are mechanisms in place to enable the types, volumes and costs of incidents and malfunctions to be quantified and monitored?		
<b>4.3.5</b>	<b>DISCIPLINARY PROCESS</b>		<b>'Procedural'</b>
	Whether there is a formal disciplinary process in place for employees who have violated organisational security policies and procedures? Such a process can act as a deterrent to employees who might otherwise be inclined to disregard security procedures.		
<b>PHYSICAL AND ENVIRONMENTAL SECURITY</b>			
<b>5.1</b>	<b>SECURE AREA</b>		
<b>5.1.1</b>	<b>PHYSICAL SECURITY PERIMETER</b>		<b>'Very Serious'</b>
	Are adequate physical border security facilities implemented to protect the Information processing service? Some examples of such security facility are card control entry gate, walls, manned reception etc.,  Are visitors required to record their entry inside the premises in a separate register?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	<p>Are details of their possessions recorded and verified at the time of their exit from the premises?</p> <p>Are camera disallowed inside the premises?</p>		
	<p>Review Data Center exterior Lighting, building orientation to ensure that they provide a secure environment.</p> <p>Data Centers should be anonymous. Ensure that there is no signage or listings in directories.</p>		
<b>5.1.2</b>	<b>PHYSICAL ENTRY CONTROLS</b>		<b>'Very Serious'</b>
	Are entry controls in place to allow only authorised personnel into various areas within organisation?		
	Is there a practice of Supervising or escorting outside staff/visitors?		
<b>5.1.3</b>	<b>SECURING OFFICES, ROOMS AND FACILITIES</b>		<b>'Very Serious'</b>
	<p>Whether the rooms, which have the Information processing service, are:</p> <ul style="list-style-type: none"> <li>• locked</li> <li>• have lockable cabinets</li> <li>• safes.</li> </ul>		
	Whether the Information processing service is protected from natural and man-made disaster such as raised floors, good exterior walls /or other suitable acceptable infrastructure?		
	Whether there is any potential threat from neighbouring premises?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Ensure that water alarm system is configured to detect water in high risk areas of the data center.		
	Ensure that burglar alarm is protecting the data center from physical intrusion.		
	Are there adequate controls over modems and other dial up devices for employees and visitors (data cards, etc.)?		
	Ensure that surveillance systems (CCTV) are designed and operating properly.		
<b>5.1.4</b>	<b>WORKING IN SECURE AREAS</b>		<b>'Procedural'</b>
	Whether there exists any security control for third parties or for personnel working in secure area?		
<b>5.2</b>	<b>EQUIPMENT SECURITY</b>		
<b>5.2.1</b>	<b>EQUIPMENT SITING PROTECTION</b>		<b>'Procedural'</b>
	Whether critical equipment is located in appropriate place to minimise unnecessary access into work areas?		
	Whether the items requiring special protection were isolated to reduce the general level of protection required?		
	Whether controls were adopted to minimise risk from potential threats such as theft, fire, explosives, smoke, water, dust, vibration, chemical effects, electrical supply interfaces, electromagnetic radiation, flood?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether there is a policy towards eating, drinking and smoking on in proximity to information processing services?		
	Whether environmental conditions are monitored which would adversely affect the information processing facilities?		
	Verify that heating, ventilation and airconditioning systems maintain constant temperatures within the data center?		
	Verify that ground earthing exists to protect the computer systems. Ensure that power is conditioned to prevent data loss.		
	Is the Server Room designed as a closed secure area?		
<b>5.2.2</b>	<b>LOCKING OF FLOPPY DISK DRIVE</b>		<b>'Procedural'</b>
	Has it been ensured that floppy disk/USB drives will generally be locked and can be accessed only through authorised use?		
<b>5.2.3</b>	<b>POWER SUPPLIES/UPS</b>		<b>'Procedural'</b>
	Whether the equipment is protected from power failures by multiple feeds, through uninterruptible Power Supply (UPS), backup generator etc.?		
	Are the required intervals for UPS maintenance being observed?		
	Is the effectiveness of the UPS system being tested on a regular basis?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Have failures due to the location occurred in the past?		
	Are generators available to protect against prolonged power loss and are they in working condition?		
<b>5.2.4</b>	<b>LAPTOPS</b>		<b>'Very Serious'</b>
	Are laptop users instructed as regards safe keeping of their computers during mobile use?		
	Is there use of an encryption product for laptop PCs?		
<b>5.2.5</b>	<b>CABLING SECURITY</b>		<b>'Procedural'</b>
	Whether the power and telecommunications cable carrying data or supporting information services are protected from interception or damage?		
	Whether there are any additional security controls in place for sensitive or critical information?		
<b>5.2.6</b>	<b>FIRE DETECTION AND PREVENTION CONTROLS</b>		<b>'Very Serious'</b>
	Are Fire detection measures adequate such as fire alarms available?		
	Has staff been informed of the location of hand-held fire extinguishers?		
	Can the hand-held fire extinguishers actually be accessed in case of a fire?		
	Is training provided for the use of hand-held fire extinguishers?		
	Are hand-held fire extinguishers regularly inspected and maintained?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Is the fire alarm system checked periodically to ensure that it is working properly?		
	Has all the staff been informed of the steps to be taken in the event that an alarm goes off?		
	Are there adequate number of fire extinguishers (generally one for every 50 sq. ft. of area)?		
	<p>Verify if a fire suppression system is in place consisting of</p> <ul style="list-style-type: none"> <li>• Fire extinguishers</li> <li>• Sprinklers</li> </ul> <p>Are they in working order and being monitored?</p>		
<b>5.2.7</b>	<b>EQUIPMENT MAINTENANCE</b>		<b>'Procedural'</b>
	Whether the equipment is maintained as per the supplier's recommended service intervals and specifications?		
	Whether the maintenance is carried out only by authorised personnel?		
	Whether logs are maintained with all suspected or actual faults and all preventive and corrective measures?		
	Whether appropriate controls are implemented while sending equipment off premises?		
	If the equipment is covered by insurance, whether the insurance requirements are satisfied?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>5.2.8</b>	<b>SECURING OF EQUIPMENT OFF-PREMISES</b>		<b>'Serious'</b>
	Whether any equipment usage outside an organisation's premises for information processing has to be authorised by the management?		
	Whether the security provided for these equipments while outside the premises are on par with or more than the security provided inside the premises?		
<b>5.2.9</b>	<b>SECURE DISPOSAL OR RE-USE OF EQUIPMENT</b>		<b>'Procedural'</b>
	Whether storage device containing sensitive information are physically destroyed or securely over written?		
<b>5.3</b>	<b>GENERAL CONTROLS</b>		
<b>5.3.1</b>	<b>CLEAR DESK AND CLEAR SCREEN POLICY</b>		<b>'Serious'</b>
	Whether automatic computer screen locking facility is enabled. This would lock the screen when the computer is left unattended for a period?		
	Whether employees are advised to leave any confidential material in the form of paper documents, media, etc., in a locked place while unattended?		
<b>5.3.2</b>	<b>REMOVAL OF PROPERTY</b>		<b>'Serious'</b>
	Whether equipment, information or software can be taken offsite without appropriate authorisation?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>COMMUNICATIONS AND OPERATIONS MANAGEMENT</b>			
<b>6.1</b>	<b>OPERATIONAL PROCEDURE AND RESPONSIBILITIES</b>		
<b>6.1.1</b>	<b>DOCUMENTED OPERATING PROCEDURES</b>		<b>'Serious'</b>
	Whether the Security Policy has identified any Operating procedures such as Back-up, Equipment maintenance etc.?		
	Whether such procedures are documented and used?		
<b>6.1.2</b>	<b>OPERATIONAL CHANGE CONTROL</b>		<b>'Very Serious'</b>
	Whether all programs running on production systems are subject to strict change control i.e., whether any change to be made to those production programs need to go through the change control authorisation?		
	Whether audit logs are maintained for any change made to the production programs?		
<b>6.1.3</b>	<b>INCIDENT MANAGEMENT PROCEDURES</b>		<b>'Serious'</b>
	Whether an Incident Management procedure exist to handle security incidents?		
	Whether there are clearly defined procedures and rules covering the different types of security incidents?		
	Whether the procedure addresses the incident management responsibilities, orderly and quick response to security incidents?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether the procedure addresses different types of incidents ranging from denial of service to breach of confidentiality etc., and ways to handle them?		
	Are steps taken to ensure that anything unusual in the log files gets reported?		
<b>6.1.4</b>	<b>SEGREGATION OF DUTIES</b>		<b>'Serious'</b>
	Whether duties and areas of responsibility are separated in order to reduce opportunities for unauthorised modification or misuse of information or services?		
<b>6.1.5</b>	<b>SEPARATION OF DEVELOPMENT AND OPERATIONAL FACILITIES</b>		<b>'Very Serious'</b>
	Whether the development and testing facilities are isolated from operational facilities. For example development software should run on a computer different from the computer with production software. Where necessary development and production network should be separated from each other?		
<b>6.1.6</b>	<b>EXTERNAL FACILITIES MANAGEMENT</b>		<b>'Serious'</b>
	Whether any of the Information processing facility is managed by external company or contractor (third party)?		
	Whether the risks associated with such management is identified in advance, discussed with the third party and appropriate controls were incorporated into the contract?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>6.1.7</b>	<b>GRANTING OF (SYSTEM/ NETWORK) ACCESS RIGHTS</b>		<b>'Very Serious'</b>
	Are the issue and the retrieval of access authorisations and access-granting means documented?		
	Is separation of functions being observed in the granting of access rights?		
	Are users being trained in the correct handling of access-granting means?		
	If use of access-granting means is logged, are such logs also analysed.		
<b>6.2</b>	<b>SYSTEM PLANNING AND ACCEPTANCE</b>		
<b>6.2.1</b>	<b>CAPACITY PLANNING</b>		<b>'Procedural'</b>
	Whether the capacity demands are monitored and projections of future capacity requirements are made?  This is to ensure that adequate processing power and storage are available. Example: Monitoring Hard disk space, RAM, CPU on critical servers.		
<b>6.3</b>	<b>SOFTWARE CONTROLS &amp; PROTECTION AGAINST MALICIOUS SOFTWARE</b>		
<b>6.3.1</b>	<b>CONTROL AGAINST MALICIOUS SOFTWARE</b>		<b>'Very Serious'</b>
	Whether there exists any control against malicious software usage?		
	Whether the security policy does address software licensing issues such as prohibiting usage of unauthorised software?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether there exists any Procedure to verify that all warning bulletins are accurate and informative with regards to the malicious software usage?		
	Whether Antivirus software is installed on the computers to check and isolate or remove any viruses from computer and media?		
	Whether this software signature is updated on a regular basis to check any latest viruses?		
	Whether all the traffic originating from un-trusted network into the organisation is checked for viruses. Example: Checking for viruses on email, email attachments and on the web, FTP traffic?		
	Are periodic runs of a virus detection program configured?		
	Are there occasional checks as to whether updates have been performed? Have the results been documented?		
	Use of a virus scanning program when exchanging of data media and data transmission – Is Anti Virus auto enabled to check CDs and floppies?		
	Are received files and data media checked for virus infection before being imported?		
<b>6.3.2</b>	<b>UNAUTHORISED SOFTWARE</b>		<b>'Very Serious'</b>
	Has a procedure for the authorisation and registration of software been laid down?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Has the ban on use of non-approved software been put in writing?		
	Have all staff members been informed of the ban?		
	What possibilities happen to be there for installation or use of unauthorised software?		
	Are checks carried out periodically on the software inventory?		
<b>6.3.3</b>	<b>PATCH MANAGEMENT</b>		<b>'Serious'</b>
	From which source are vendor patches obtained?		
	What steps are taken to ensure that information about the latest patches is always available?		
	How is the patch level status of systems verified?		
<b>6.3.4</b>	<b>DATA MANAGEMENT</b>		<b>'Serious'</b>
	Are the persons responsible for the exchange of data media familiar with the process of physical erasure?		
<b>6.4</b>	<b>HOUSEKEEPING</b>		
<b>6.4.1</b>	<b>INFORMATION BACK-UP</b>		<b>'Very Serious'</b>
	Whether Back-up of essential business information such as production server, critical network components, configuration backup etc., were taken regularly?		
	Whether the backup media along with the procedure to restore the backup are stored securely and well away from the actual site?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Can data restoration be performed with the help of the documentation even by a person other than the one who backed up the data?		
	Are the persons responsible for data backup and restoration sufficiently trained?		
	Are data restoration exercises carried out periodically?		
	Whether the backup media are regularly tested to ensure that they could be restored within the time frame allotted in the operational procedure for recovery?		
<b>6.5</b>	<b>NETWORK MANAGEMENT</b>		
<b>6.5.1</b>	<b>NETWORK CONTROLS</b>		<b>'Serious'</b>
	Whether effective operational controls such as separate network and system administration facilities were established where necessary?		
	Whether responsibilities and procedures for management of remote equipment, including equipment in user areas are established?		
	Whether there exist any special controls to safeguard confidentiality and integrity of data processing over the public network and to protect the connected systems?		
	Whether access attempts via <i>telnet</i> , <i>ftp</i> are logged and reviewed?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>6.6</b>	<b>MEDIA HANDLING AND SECURITY</b>		<b>'Procedural'</b>
<b>6.6.1</b>	<b>MANAGEMENT OF REMOVABLE COMPUTER MEDIA</b>		<b>'Procedural'</b>
	Whether there exist a procedure for management of removable computer media such as tapes, disks, cassettes, memory cards and reports?		
<b>6.6.2</b>	<b>DISPOSAL OF MEDIA</b>		<b>'Procedural'</b>
	Whether the media that are no longer required are disposed off securely and safely?		
	Whether disposal of sensitive items are logged where necessary in order to maintain an audit trail?		
<b>6.6.3</b>	<b>INFORMATION HANDLING PROCEDURES</b>		<b>'Procedural'</b>
	Whether there exists a procedure for handling the storage of information? Does this procedure address issues such as information protection from unauthorised disclosure or misuse?		
<b>6.6.4</b>	<b>SECURITY OF SYSTEM DOCUMENTATION</b>		<b>'Procedural'</b>
	Whether the system documentation is protected from unauthorised access?		
	Whether the access list for the system documentation is kept to the minimum and authorised by the application owner (for use by a limited number of users)?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>6.7</b>	<b>EXCHANGE OF INFORMATION AND SOFTWARE</b>		
<b>6.7.1</b>	<b>INFORMATION AND SOFTWARE EXCHANGE AGREEMENT</b>		<b>'Procedural'</b>
	Whether there exists any formal or informal agreement between the organisations for exchange of information and software?		
	Whether the agreement does address the security issues based on the sensitivity of the business information involved?		
<b>6.7.2</b>	<b>SECURITY OF MEDIA IN TRANSIT</b>		<b>'Very Serious'</b>
	Whether security of media while in transit has been taken into account?		
	Whether the media is well protected from unauthorised access, misuse or corruption?		
<b>6.7.3</b>	<b>ELECTRONIC COMMERCE SECURITY</b>		<b>'Procedural'</b>
	Whether Electronic commerce is well protected and controls implemented to protect against fraudulent activity, contract dispute and disclosure or modification of information?		
	Whether Security controls such as Authentication, Authorisation are considered in the E-Commerce environment?		
	Whether electronic commerce arrangements between trading partners include a documented agreement, which commits both parties to the agreed terms of trading, including details of security issues?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
6.7.4	<b>SECURITY OF ELECTRONIC E-MAIL</b>		'Procedural'
	Whether there is a policy in place for the acceptable use of electronic mail or does security policy address the issues with regards to use of electronic mail?		
	Whether there are adequate procedures, which require that all the incoming e-mail messages be scanned for virus to prevent virus infection to the network?		
	Have regulations governing file transfer and exchange of messages with external parties been established?		
	Are there formal rules based on which e-mail addresses are assigned?		
	Are security measures such as filtering and text search in e-mails implemented?		
	Is the criterion for e-mail filtering adequate? What are the procedures for changes in filtering parameters?		
	Whether controls such as antivirus checking, isolating potentially unsafe attachments, spam control, anti relaying etc., been put in place to reduce the risks created by electronic mail?		

<b>NO.</b>	<b>AUDIT OBJECTIVE</b>	<b>AUDITOR'S OBSERVATION</b>	<b>SEVERITY OF NON- COMPLIANCE</b>
<b>6.7.5</b>	<b>SECURITY OF ELECTRONIC OFFICE SYSTEMS</b>		<b>'Procedural'</b>
	Whether there is an Acceptable use policy to address the use of Electronic office systems?		
	Whether there are any guidelines in place to effectively control the business and security risks associated with the electronic office systems?		
<b>6.7.6</b>	<b>PUBLICLY AVAILABLE SYSTEMS</b>		<b>'Procedural'</b>
	Whether there is any formal authorisation process in place for the information to be made publicly available? Such as approval from Change Control which includes Business, Application owner etc.		
	Whether there are any controls in place to protect the integrity of such information publicly available from any unauthorised access?		
<b>6.7.7</b>	<b>OTHER FORMS OF INFORMATION EXCHANGE</b>		<b>'Procedural'</b>
	Whether there are any policies, procedures or controls in place to protect the exchange of information through the use of voice, facsimile and video communication facilities?		
	Whether staffs are reminded to maintain the confidentiality of sensitive information while using such forms of information exchange facility?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>ACCESS CONTROL</b>			
<b>7.1</b>	<b>BUSINESS REQUIREMENTS FOR ACCESS CONTROL</b>		
<b>7.1.1</b>	<b>ACCESS CONTROL POLICY</b>		<b>'Very Serious'</b>
	Whether the business requirements for access control have been defined and documented?		
	Whether the Access control policy does address the rules and rights for each user or a group of user?		
	Whether the users and service providers were given a clear statement of the business requirement to be met by access controls?		
<b>7.2</b>	<b>USER ACCESS MANAGEMENT</b>		
<b>7.2.1</b>	<b>USER REGISTRATION</b>		<b>'Very Serious'</b>
	Whether there is any formal user registration and deregistration procedure for granting access to multi-user information systems and services?  The creation of a user account must be approved by the business owner of the application in question or their nominee?		
	Are there standard rights profiles for different functions or tasks?		
<b>7.2.2</b>	<b>USER DELETION</b>		<b>'Very Serious'</b>
	Is there a well defined process for revoking user rights on termination of employment?		
	Is the IS Team promptly informed of the termination of service by a staff member?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Are there any former staff members who still hold previously issued passes or user ID?		
	Is it ensured that all entry and access rights of a staff member terminating his/her employment are revoked and deleted and is the process adequate?		
	When the contractual relationship with outside staff is terminated, are all access authorisations revoked or deleted?		
<b>7.2.3</b>	<b>PRIVILEGE MANAGEMENT</b>		<b>'Very Serious'</b>
	Whether the allocation and use of any privileges in multi-user information system environment is restricted and controlled? i.e., Privileges are allocated on need-to-use basis; privileges are allocated only after formal authorisation process.		
	Are there any organisational procedures governing the designation of users or user groups?		
	Is there any program for the configuration of users or user groups?		
	Are there records of the authorized users and groups and their authorisation profiles?		
<b>7.2.4</b>	<b>USER PASSWORD MANAGEMENT</b>		<b>'Very Serious'</b>
	The allocation and reallocation of passwords is controlled through a formal management process.		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether the users are asked to sign a statement to keep the password confidential?		
	Have users been informed on how to handle passwords correctly?		
	Is the password quality controlled?		
	Are password changes mandatory?		
	Has every user been provided with a password?		
	Are there any fixed procedures relating to the escrow of passwords If Yes,		
	Are the escrowed passwords complete and up-to-date?		
	Have provisions been made to ensure proper handling of escrowed passwords?		
	Is the system of password changes controlled on the basis of the updating entries for escrowed passwords?		
<b>7.2.5</b>	<b>REVIEW OF USER ACCESS RIGHTS</b>		<b>'Procedural'</b>
	Whether there exists a process to review user access rights at regular intervals? Example: Special privilege review every 3 months, normal privileges every 6 months.		
<b>7.3</b>	<b>USER RESPONSIBILITIES</b>		
<b>7.3.1</b>	<b>PASSWORD USE</b>		<b>'Very Serious'</b>
	Whether there are any guidelines in place to guide users in selecting and maintaining secure passwords?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
7.3.2	<b>UNATTENDED USER EQUIPMENT</b>		'Procedural'
	Whether the users and contractors are made aware of the security requirements and procedures for protecting unattended equipment, as well as their responsibility to implement such protection?		
7.4	<b>NETWORK ACCESS CONTROL</b>		
7.4.1	<b>POLICY ON USE OF NETWORK SERVICES</b>		'Procedural'
	Whether there exists a policy that does address concerns relating to networks and network services? such as:  Parts of network to be accessed, Authorisation services to determine who is allowed to do what, Procedures to protect the access to network connections and network services.		
	Are users provided with standard configuration of work stations? If not are deviations authorized and documented.		
7.4.2	<b>ENFORCED PATH</b>		'Procedural'
	Whether there is any control that restricts the route between the user terminal and the designated computer services the user is authorised to access, for example, enforced path to reduce the risk?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>7.4.3</b>	<b>USER AUTHENTICATION FOR EXTERNAL CONNECTIONS</b>		<b>'Very Serious'</b>
	Whether there exists any authentication mechanism for challenging external connections? Examples: Cryptography based technique, hardware tokens, software tokens, challenge/response protocol etc.,		
<b>7.4.4</b>	<b>NODE AUTHENTICATION</b>		<b>'Procedural'</b>
	Whether connections to remote computer systems that are outside organisations security management are authenticated? Node authentication can serve as an alternate means of authenticating groups of remote users where they are connected to a secure, shared computer facility.		
<b>7.4.5</b>	<b>REMOTE DIAGNOSTIC PORT PROTECTION</b>		<b>'Procedural'</b>
	Whether accesses to diagnostic ports are securely controlled? i.e. protected by a security mechanism.		
<b>7.4.6</b>	<b>SEGREGATION IN NETWORKS</b>		<b>'Very Serious'</b>
	Whether the network (where business partner's and/or third parties need access to information system) is segregated using perimeter security mechanisms such as firewalls?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>7.4.7</b>	<b>NETWORK CONNECTION PROTOCOLS</b>		<b>'Procedural'</b>
	Whether there exists any network connection control for shared networks that extend beyond the organisational boundaries? Example: electronic mail, web access, file transfers, etc.		
<b>7.4.8</b>	<b>NETWORK ROUTING CONTROL</b>		<b>'Serious'</b>
	Are changes to <i>network configuration</i> documented?		
	Is the system administrator the only person who is able to change the configuration?		
	Is the system administrator the only person who is able to read the network log files?		
<b>7.4.9</b>	<b>SECURITY OF NETWORK SERVICES</b>		<b>'Very Serious'</b>
	Whether the organisation, using public or private network service does ensure that a clear description of security attributes of all services used is provided?		
	Are all Internet connections are routed through a Firewall? Does a dedicated team manage the Firewall? Are the ports opened only on a "need to have" basis?		
	Is there an Intruder Detection System (IDS) implemented?		
	Are the application and database servers kept separated from the web server in the de-militarized zone?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Is the de-militarized zone separated from the Internet cloud by means of a Firewall?		
	If the de-militarized zone is connected to the Intranet, it should be separated by a Firewall.		
	Is the Firewall rule base treated as a sensitive information and knowledge of the same is restricted to only authorized officials in the IT/Computer operations department?		
	Is the decision to open specific firewall ports/rule base approved in accordance with IT Security Policy (IT Security Policy should list out such ports)? e.g. firewalls should block unwanted ports running services such as ftp, telnet, SMTP, etc. into the de-militarized zone.		
<b>7.4.10</b>	<b>NETWORK TESTS</b>		<b>'Very Serious'</b>
	Is it ensured that products/ services that use the Internet for connectivity or communications have undergone a successful penetration test prior to production implementation?		
	Is there a penetration test process that ensures whether modifications to the product/service that uses the Internet for connectivity or communication have been reviewed to determine whether a subsequent penetration test is warranted?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Is there an intrusion detection system in place for all the external IP connections?		
<b>7.4.11</b>	<b>NETWORK PERFORMANCE MEASUREMENT</b>		<b>'Procedural'</b>
	Are performance measurements and traffic-flow analyses conducted regularly?  Is it within the SLA agreed to with the vendor?		
	Has a security analysis of the network environment been conducted?		
<b>7.5</b>	<b>OPERATING SYSTEM ACCESS CONTROL</b>		
<b>7.5.1</b>	<b>AUTOMATIC TERMINAL IDENTIFICATION</b>		<b>'Procedural'</b>
	Whether automatic terminal identification mechanism is used to authenticate connections?		
<b>7.5.2</b>	<b>PLANNING OF A WINDOWS 'OS' NETWORK</b>		<b>'Procedural'</b>
	Is there any documentation indicating which directories on which computers have been shared for network access?		
<b>7.5.3</b>	<b>TERMINAL LOGON PROCEDURES</b>		<b>'Procedural'</b>
	Has it been ensured that access to information system is attainable only via a secure log-on process?		
	Are machines configured to boot from hard drives?		
	Is there a BIOS password set for PC to disable users from booting through CD drives?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	The number of unsuccessful log-in attempts is restricted.		
	After each unsuccessful log-in attempt, the waiting time until the next log-in prompt will increase.		
	How often are unsuccessful log-in attempts reported to the user?		
	Is access to the console protected by passwords or other means?		
<b>7.5.4</b>	<b>USER IDENTIFICATION AND AUTHORISATION</b>		<b>'Procedural'</b>
	Whether unique identifier is provided to every user such as operators, system administrators and all other staff including technical?		
	The generic user accounts should only be supplied under exceptional circumstances where there is a clear business benefit. Additional controls may be necessary to maintain accountability.		
	Whether the authentication method used does substantiate the claimed identity of the user? commonly used method: Password that only the user knows?		
<b>7.5.5</b>	<b>LOGS</b>		<b>'Procedural'</b>
	Are OS, network, firewall, mail filter and other software logs reviewed periodically?		
	Are the possible consequences of log entries critical to security analysed?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>7.5.6</b>	<b>CONFIGURATION OF 'OS' SERVERS</b>		<b>'Procedural'</b>
	Is there a document detailing the settings of various parameters in the OS Server?		
	Are these settings adhered to?		
	Is Protection of the registry under Windows in place?		
	Have the default passwords for local access been replaced by secure ones?		
<b>7.5.7</b>	<b>PASSWORD MANAGEMENT SYSTEM</b>		<b>'Procedural'</b>
	Whether there exists a password management system that enforces various password controls such as individual password for accountability, enforcing password changes, store passwords in encrypted form, not displaying passwords on screen etc.?		
<b>7.5.8</b>	<b>USE OF SYSTEM UTILITIES</b>		<b>'Procedural'</b>
	Whether system utilities that comes with computer installations, but may override system and application control are tightly controlled?		
<b>7.5.9</b>	<b>TERMINAL TIMEOUT</b>		<b>'Procedural'</b>
	Inactive terminal in public areas should be configured to clear the screen or shut down automatically after a defined period of inactivity.		

<b>NO.</b>	<b>AUDIT OBJECTIVE</b>	<b>AUDITOR'S OBSERVATION</b>	<b>SEVERITY OF NON- COMPLIANCE</b>
<b>7.5.10</b>	<b>LIMITATION OF CONNECTION TIME</b>		<b>'Procedural'</b>
	Whether there exists any restriction on connection time for high-risk applications? This type of set up should be considered for sensitive applications for which the terminals are installed in high-risk locations.		
<b>7.5.11</b>	<b>ADMINISTRATOR FUNCTIONS</b>		<b>'Procedural'</b>
	To which persons is the supervisor password known?		
	Have administrator roles been divided up?		
	Are the authorisations assigned by the administrator randomly checked?		
	How frequently are logins and logouts using administrator ID checked?		
<b>7.6</b>	<b>APPLICATION ACCESS CONTROL</b>		
<b>7.6.1</b>	<b>INFORMATION ACCESS RESTRICTION</b>		<b>'Procedural'</b>
	Whether access to application by various groups/personnel within the organisation has been defined in the access control policy as per the individual business application requirement? and whether it is consistent with the organisation's Information access policy?		

<b>NO.</b>	<b>AUDIT OBJECTIVE</b>	<b>AUDITOR'S OBSERVATION</b>	<b>SEVERITY OF NON-COMPLIANCE</b>
<b>7.6.2</b>	<b>SENSITIVE SYSTEM ISOLATION</b>		<b>'Procedural'</b>
	Whether sensitive systems are provided with isolated computing environment such as running on a dedicated computer, sharing resources only with trusted application systems, etc.?		
<b>7.7</b>	<b>MONITORING SYSTEM ACCESS AND USE</b>		
<b>7.7.1</b>	<b>EVENT LOGGING</b>		<b>'Procedural'</b>
	Whether audit logs recording exceptions and other security relevant events are produced and kept for an agreed period to assist in future investigations and access control monitoring?		
<b>7.7.2</b>	<b>MONITORING SYSTEM USE</b>		<b>'Procedural'</b>
	Whether procedures are set up for monitoring the use of information processing facility? The procedure should ensure that the users are performing only the activities that are explicitly authorized.		
	Whether the results of the monitoring activities are reviewed regularly?		
<b>7.7.3</b>	<b>CLOCK SYNCHRONISATION</b>		<b>'Procedural'</b>
	Whether the computer or communication device has the capability of operating a real time clock? If yes, has it been set to an agreed standard such as Universal coordinated time or local standard time? The correct setting of the computer clock is important to ensure the accuracy of the audit logs.		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>7.8</b>	<b>MOBILE COMPUTING AND TELEWORKING</b>		
<b>7.8.1</b>	<b>MOBILE COMPUTING</b>		<b>'Procedural'</b>
	Whether a formal policy is adopted that takes into account the risks of working with computing facilities such as notebooks, palmtops etc., especially in unprotected environments?		
<b>BUSINESS CONTINUITY MANAGEMENT</b>			
<b>8.1</b>	<b>ASPECTS OF BUSINESS CONTINUITY MANAGEMENT AND DISASTER RECOVERY ALTERNATIVES</b>		
<b>8.1.1</b>	<b>BUSINESS CONTINUITY MANAGEMENT PROCESS</b>		<b>'Very Serious'</b>
	Whether there is a managed process in place for developing and maintaining business continuity throughout the organisation?		
<b>8.1.2</b>	<b>BUSINESS CONTINUITY AND IMPACT ANALYSIS</b>		<b>'Very Serious'</b>
	Whether events that could cause interruptions to business process were identified? example: equipment failure, flood and fire.		
	Whether a risk assessment was conducted to determine impact of such interruptions?		
	Whether a strategy plan was developed based on the risk assessment results to determine an overall approach to business continuity?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
8.1.3	<b>WRITING AND IMPLEMENTING CONTINUITY PLAN</b>		'Very Serious'
	Whether plans were developed to restore business operations within the required time frame following an interruption or failure to business process?		
	Whether the plan is regularly tested and updated?		
8.1.4	<b>BUSINESS CONTINUITY PLANNING FRAMEWORK</b>		'Very Serious'
	Whether there is a single framework of Business continuity plan?		
	Whether this framework is maintained to ensure that all plans are consistent and identify priorities for testing and maintenance?		
	Whether this identifies conditions for activation and individuals responsible for executing each component of the plan?		
8.1.5	<b>TESTING, MAINTAINING AND RE-ASSESSING BUSINESS CONTINUITY PLAN</b>		'Very Serious'
	Whether Business continuity plans are tested regularly to ensure that they are up to date and effective?		
	Whether Business continuity plans were maintained by regular reviews and updates to ensure their continuing effectiveness?		
	Whether procedures were included within the organisations change management programme to ensure that Business continuity matters are appropriately addressed?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
<b>8.1.6</b>	<b>EMERGENCY PROCEDURES</b>		<b>'Very Serious'</b>
	Who is authorised to determine the existence of an emergency?		
	Is there an Emergency Procedure Manual?		
	Is a description of the emergency organisation available?		
	Is consideration given to all possible emergencies?		
	Are all persons and organisational units stated in the Manual aware of the emergency organisation?		
	Has configuration backup been produced for every employed computer type and/or every employed operating system and easily accessible in case of emergency?		
	Is a startup disk available for each configuration PC which can be used to boot the system in the event of a boot failure?		
<b>8.1.7</b>	<b>ALTERNATE PROCESSING</b>		<b>'Very Serious'</b>
	Is there a specification of internal and external alternatives?		
	Are these available and effective?		
	Are the configuration, capacity and compatibility of internal and external alternatives being adapted to the current status of procedures?		
	Are the integrity and confidentiality of IT application and data moved to external resources ensured in the case of recourse to external alternatives?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Are there any contingency plans for failure of individual assets?		
	Are there contingency plans in case of breakdown of data transmission?		
	Has the data transmission capacity required for the use of alternative resources been adequately assessed?		
	Are there any alternative solutions for important communication links?		
	Is there a provision of redundant communication lines?		
	Is there a sufficient redundant arrangement for network components?		
	Is there any single point of failure in the current infrastructure?		
<b>COMPLIANCE</b>			
<b>9.1</b>	<b>COMPLIANCE WITH LEGAL REQUIREMENTS</b>		
<b>9.1.1</b>	<b>IDENTIFICATION OF APPLICABLE LEGISLATION</b>		'Serious'
	Whether all relevant statutory, regulatory and contractual requirements were explicitly defined and documented for each information system?		
<b>9.1.2</b>	<b>INTELLECTUAL PROPERTY RIGHTS</b>		'Serious'
	Whether there exist any procedures to ensure compliance with legal restrictions on use of material in respect of which there may be intellectual property (IPR) rights such as copyright, design rights, trade marks?		

NO.	AUDIT OBJECTIVE	AUDITOR'S OBSERVATION	SEVERITY OF NON-COMPLIANCE
	Whether the procedures are well implemented?		
	Whether proprietary software products are supplied under a license agreement that limits the use of the products to specified machines? The only exception might be for making own back-up copies of the software.		
<b>9.1.3</b>	<b>SAFEGUARDING OF ORGANISATIONAL RECORDS</b>		'Serious'
	Whether important records of the organisation is protected from loss destruction and falsification?		
<b>9.1.4</b>	<b>DATA PROTECTION AND PRIVACY OF PERSONAL INFORMATION</b>		'Serious'
	Whether there is a management structure and control in place to protect data and privacy of personal information?		
<b>9.1.5</b>	<b>PREVENTION OF MISUSE OF INFORMATION PROCESSING</b>		'Serious'
	Whether use of information processing facilities for any non-business or unauthorised purpose, without management approval is treated as improper use of the facility?		
	Whether at the log-on a warning message is presented on the computer screen indicating that the system facility being entered is private and that unauthorised access is not permitted?		

**SECTION 'B' – APPLICATION LOGICAL ACCESS CONTROLS**

EVALUATE EACH APPLICATION AT THE AUDIT LOCATION  
AGAINST THESE CONTROL POINTS

Application Name : \_\_\_\_\_

NO.	CONTROL QUESTION	AUDITOR'S OBSERVATION	RATING IN CASE OF IRREGULARITY
1.	<p>Obtain a list of valid user ID at the location</p> <ol style="list-style-type: none"> <li>1. Reconcile Active users to those present in the location as per attendance roles</li> <li>2. Validate User Work Class with the designation of the users at the location</li> <li>3. Are concurrent auditors provided with only view access</li> <li>4. Check for user with maximum inactive time greater than 10 minutes</li> <li>5. Check for user with password expiry date greater than 40 days from current day</li> <li>6. For user ID disabled, check whether these have been done immediately after their names have been removed from the attendance register. In case any delays are noticed from the time of removal from attendance register to the actual date of disabling the user Id report the same.</li> </ol>		'Very Serious'
2.	Are Access privileges defined for each user as per the designation?		'Very Serious'
3.	Ensure that transferred/retired/resigned employees User Ids are deleted from application		'Very Serious'

NO.	CONTROL QUESTION	AUDITOR'S OBSERVATION	RATING IN CASE OF IRREGULARITY
4.	<ul style="list-style-type: none"> <li>Whether the application logs out the user after 5 minutes of inactivity?</li> <li>Whether the system forces the user to change the initial password given by system manager?</li> <li>Users acknowledge receipt of the password on the register maintained for the purpose</li> </ul>		'Very Serious'
5.	Whether the user log-off the application whenever they leave the work place for break?		'Very Serious'
6.	<ul style="list-style-type: none"> <li>Check that all user accounts are identifiable to a user and generic user-ids, which cannot be attributed to any individual, are not allowed.</li> <li>Check that all default vendor accounts shipped with the application have been disabled.</li> </ul>		'Very Serious'
7.	When the staff members are out on training/outstation assignment and if the user ID will remain inactive for certain days is the user ID is temporarily suspended.		'Very Serious'
8.	Whether an undertaking for maintaining secrecy and confidentiality of password has been obtained from every user and preserved?		'Very Serious'
9.	Check whether super user passwords are changed immediately after those are used by support persons for rectification of problems and this usage is documented.		'Very Serious'
10.	Ensure more than one user id has not been given to any user.		'Very Serious'

NO.	CONTROL QUESTION	AUDITOR'S OBSERVATION	RATING IN CASE OF IRREGULARITY
11.	Check whether Super user passwords (for applications hosted at the location) are confined to systems manager only and the same are kept with the location in charge in a sealed cover?		'Very Serious'
12.	Password Security:-  1. Whether the users change their password periodically?  2. Does the application force the user to set a alpha numeric password?  3. Is the minimum length of the password set to 8 characters?  4. Whether password entry is disabled after three unsuccessful log-on attempts?  5. Whether the system force the users to change their password after 40 days from the date of last creation/modification?  6. Whether password history is maintained by the application?  7. From Transaction records, day end reports or audit trails perform a sample check to verify if user ID has been used on any day when the user is on leave.		'Very Serious'

## SECTION 'C' - BUSINESS CONTINUITY PLANNING AND DISASTER RECOVERY PLANNING

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
1.1	<p><b>Review the written BCP/DRP (s) and verify that the BCP/DRP(s):</b></p> <p>Address(es) the recovery of each business unit/department/function:</p> <ul style="list-style-type: none"> <li>• According to its priority ranking in the Risk Assessment; and</li> <li>• Considering interdependencies among systems.</li> </ul>		'Very Serious'
	<p>Take(s) into account:</p> <ul style="list-style-type: none"> <li>• Personnel;</li> <li>• Facilities;</li> <li>• Technology (hardware, software, operational equipment);</li> <li>• Telecommunications/networks;</li> <li>• Vendors;</li> <li>• Utilities;</li> <li>• Documentation (data and records);</li> <li>• Law enforcement;</li> <li>• Security;</li> <li>• Media; and</li> <li>• Shareholders.</li> </ul>		
	<p>Include(s) emergency preparedness and crisis management aspects:</p> <ul style="list-style-type: none"> <li>• Has an accurate employee/ manager contact tree;</li> <li>• Clearly defines responsibilities and decision-making authorities for designated teams and/or staff members, including those who have authority to declare a disaster;</li> </ul>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
	<ul style="list-style-type: none"> <li>Explains actions to be taken in specific emergency situations;</li> <li>Defines the conditions under which the back-up site would be used;</li> <li>Has procedures in place for notifying the back-up site;</li> <li>Designates a public relations spokesperson; and</li> <li>Identifies sources of needed office space and equipment and list of key vendors (hardware/software/communications, etc.)</li> </ul>		
1.2.	Determine if the BCP/DRP establishes processing priorities to be followed in the event not all applications can be processed.		
1.3.	Determine if adequate procedures are in place to ensure the BCP/DRP (s) is (are) maintained in a current fashion and updated regularly.		
1.4.	Determine if a senior manager has been assigned responsibility to oversee the development, implementation, testing, and maintenance of the BCP/DRP.		
1.5.	Determine if the board reviews and approves the written BCP/DRP(s) and testing results at least annually and documents these reviews in the board minutes.		
1.6.	Determine if senior management periodically reviews and prioritizes each business unit, business process, department, and subsidiary for its critical importance and recovery prioritization. If so, determine how often reviews are conducted.		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
1.7.	If applicable, determine if senior management has evaluated the adequacy of the BCP/DRPs for its service providers, and ensured the organization's BCP/DRP is compatible with those service provider plans, commensurate with adequate recovery priorities.		
<b>2.</b>	<b>BUSINESS IMPACT ANALYSIS</b>		'Very Serious'
2.1.	Determine if all functions and departments were included in the BIA.		
2.2.	Review the BIA to determine if the identification and prioritization of business functions are adequate.		
2.3.	Determine if the BIA identifies maximum allowable downtime for critical business functions, acceptable levels of data loss and backlogged transactions, and the cost and recovery time objectives associated with downtime.		
2.4.	<p>Review the risk assessment and determine if it includes scenarios and probability of occurrence of disruptions of information services, technology, personnel, facilities, and service providers from internal and external sources, including:</p> <ul style="list-style-type: none"> <li>• Natural events such as fires, floods, and severe weather;</li> <li>• Technical events such as communication failure, power outages, and equipment and software failure; and</li> <li>• Malicious activity including network security attacks, fraud, and terrorism.</li> </ul>		
2.5.	Ensure that the risk assessment and BIA have been reviewed and approved by senior management and the board.		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
2.6.	Ensure that reputation, operational, compliance, and other risks are considered in plan(s).		
<b>3.</b>	<b>RISK MITIGATION STRATEGIES</b>		'Very Serious'
3.1.	<p>Determine if adequate risk mitigation strategies have been considered for:</p> <p>Alternate locations and capacity for:</p> <ul style="list-style-type: none"> <li>• Data centers and computer operations;</li> <li>• Back-room operations;</li> <li>• Work locations for business functions; and</li> <li>• Telecommunications.</li> </ul>		
	<p>Back-up of:</p> <ul style="list-style-type: none"> <li>• Data;</li> <li>• Operating systems;</li> <li>• Applications;</li> <li>• Utility programs; and</li> <li>• Telecommunications.</li> </ul>		
	<p>Off-site storage of:</p> <ul style="list-style-type: none"> <li>• Back-up media;</li> <li>• Supplies; and</li> <li>• Documentation, e.g. BCP(s), DRP, operating and other procedures, inventory listings, etc.</li> </ul>		
	<p>Alternate power supplies:</p> <ul style="list-style-type: none"> <li>• Uninterruptible power supplies (UPS); and</li> <li>• Back-up generators.</li> </ul>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
3.2.	<p>Determine if:</p> <ul style="list-style-type: none"> <li>• Duplicates of the operating systems are available both on- and off-site.</li> <li>• Duplicates of the production programs are available both on- and off-site, including both source (if applicable) and object versions.</li> <li>• All programming and system software changes are included in the back up.</li> <li>• Back-up media is stored off-site in a place from which it can be retrieved quickly at any time.</li> <li>• Frequency and number of back-up generations is adequate in view of the volume of transactions being processed and the frequency of system updates.</li> <li>• Duplicates of transaction files are maintained on- and off-site.</li> <li>• Data file back-ups are taken off-site in a timely manner and not brought back until a more current back-up is off-site.</li> </ul>		
3.3.	<p>Review the written IT continuity plan(s) and determine if the plan(s) addresses the back-up of the systems and programming function (if applicable), including:</p> <ul style="list-style-type: none"> <li>• Back-up of programming tools and software; and</li> <li>• Off-site copies of program and system documentation.</li> </ul>		
3.4.	<p>Determine if the plan addresses how backlogged transactions and other activity will be brought current.</p>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
3.5.	Determine whether adequate physical security and access controls exist over data back-ups and program libraries throughout their life cycle, including when they are created, transmitted/delivered to storage, stored, retrieved and loaded, and destroyed.		
3.6.	<p>Ensure appropriate policies, standards, and processes address business continuity planning issues including:</p> <ul style="list-style-type: none"> <li>• Systems Development Life Cycle, including project management;</li> <li>• The change control process;</li> <li>• Data synchronization, back up, and recovery;</li> <li>• Employee training and communication planning;</li> <li>• Insurance; and</li> <li>• Government and community coordination.</li> </ul>		
3.7.	Determine if personnel are adequately trained as to their specific responsibilities under the plan(s) and whether emergency procedures are posted in prominent locations throughout the facility.		
3.8.	<p>Determine if the continuity strategy includes alternatives for interdependent components and stakeholders, including:</p> <ul style="list-style-type: none"> <li>• Utilities;</li> <li>• Telecommunications;</li> <li>• Third-party technology providers;</li> <li>• Key suppliers/business partners; and</li> <li>• Customers/members.</li> </ul>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
3.9.	<p>Determine if there are adequate processes in place to ensure the plan(s) are maintained to remain accurate and current.</p> <ul style="list-style-type: none"> <li>• Designated personnel are responsible for maintaining changes in processes, personnel, and environment(s).</li> <li>• The board of directors reviews and approves the plan(s) annually and after significant changes and updates.</li> <li>• Process includes notification and distribution of revised plans to personnel and recovery locations.</li> </ul>		
4.	<b>DISASTER RECOVERY SITE/ALTERNATE PROCESSING SITE</b>	'Very Serious'	
4.1.	Does the Insurer have a clear Off-site Back-up of Data in a City falling under a different Seismic Zone, either on its own or through a Service Provider?		
4.2.	<p>Does the Insurer have, in addition to above, the necessary infrastructure for Mission Critical Systems to address at least the following:</p> <ul style="list-style-type: none"> <li>• Calculation of daily NAV (Fund wise)</li> <li>• Redemption processing.</li> </ul>		
4.3.	<p>Determine if satisfactory consideration has been given to geographic diversity for:</p> <ul style="list-style-type: none"> <li>• Alternate processing locations;</li> <li>• Alternate locations for business processes and functions; and</li> <li>• Off-site storage.</li> </ul>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
4.4.	Describe the arrangements for alternative processing capability in the event any specific hardware, the data center, or any portion of the network becomes disabled or inaccessible, and determine if those arrangements are in writing.		
4.5.	If the organization is relying on in-house systems at separate physical locations for recovery, verify if the equipment is capable of independently processing all critical applications.		
4.6.	<p>If the organization is relying on outside facilities for recovery, determine if the recovery site:</p> <ul style="list-style-type: none"> <li>• Has the ability to process the required volume;</li> <li>• Provides sufficient processing time for the anticipated workload based on emergency priorities; and</li> <li>• Allows the organization to use the facility until it achieves a full recovery from the disaster and resumes activity at the organization's own facilities.</li> </ul>		
4.7.	Review the contract between applicable parties, such as recovery vendors.		
4.8.	Determine whether the organization ensures that when any changes (e.g. hardware or software upgrades or modifications) in the production environment occur that a process is in place to make or verify a similar change in each alternate recovery location.		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
4.9.	Determine whether the organization is kept informed of any changes at the recovery site that might require adjustments to the organization's software or its recovery plan(s).		
4.10	Determine if there are plans in place that address the return to normal operations and original business locations once the situation has been resolved and permanent facilities are again available.		
4.11.	Determine if adequate documentation is housed at the alternate recovery location including: <ul style="list-style-type: none"> <li>• Copies of each BCP/DRP;</li> <li>• Copies of necessary system documentation; and</li> </ul>		
4.12.	Determine if appropriate physical and logical access controls have been considered and planned for the inactive production system when processing is temporarily transferred to an alternate facility.		
4.13.	Determine if the methods by which personnel are granted temporary access (physical and logical) during continuity planning implementation periods are reasonable. <ul style="list-style-type: none"> <li>• Evaluate the extent to which back-up personnel have been reassigned different responsibilities and tasks when business continuity planning scenarios are in effect and if these changes require a revision to the levels of systems, operational, data, and facilities access.</li> </ul>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
	<ul style="list-style-type: none"> <li>Review the assignment of authentication and authorization credentials to determine if they are based upon primary job responsibilities and if they also include business continuity planning responsibilities.</li> </ul>		
4.14.	Determine if the intrusion detection and incident response plan considers resource availability, and facility and systems changes that may exist when alternate facilities are placed in use.		
<b>5.</b>	<b>TESTING</b>		'Very Serious'
5.1.	Determine if the BCP/DRP(s) is tested periodically		
5.2.	Verify that all critical business units/ departments/functions are included in the testing.		
5.3.	Verify that tests include: <ul style="list-style-type: none"> <li>Setting goals and objectives in advance;</li> <li>Realistic conditions and activity volumes;</li> <li>Use of actual back-up system and data files while maintaining off-site back-up copies for use in case of an event concurrent with the testing;</li> <li>Participation and review by internal audit;</li> <li>A post-test analysis report and review process that includes a comparison of test results to the original goals;</li> <li>Development of a corrective action plan(s) for all problems encountered; and</li> <li>Board of directors review.</li> </ul>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
5.4.	Determine if interdependent departments, vendors, and key market providers have been involved in testing at the same time to uncover potential conflicts and/or inconsistencies.		
5.5.	<p>Determine if the level of testing is adequate for the size and complexity of the organization. Determine if the testing includes:</p> <ul style="list-style-type: none"> <li>• Testing the operating systems and utilities (infrastructure);</li> <li>• Testing of all critical applications (application level);</li> <li>• Data transfer between applications (integrated testing); and</li> <li>• Testing the complete environment and workload (stress test).</li> </ul>		
5.6.	<p>Determine whether testing at an alternative location includes:</p> <ul style="list-style-type: none"> <li>• Network connectivity;</li> <li>• Items processing and backroom operations connectivity and information; and</li> <li>• Other critical data feed connections/ interfaces.</li> </ul>		
5.7.	<p>Determine whether testing of the information technology infrastructure includes:</p> <ul style="list-style-type: none"> <li>• Rotation of personnel involved; and</li> <li>• Business unit personnel involvement.</li> </ul>		

NO.	INDICATIVE CHECKLIST QUESTION	COMMENT	RATING IN CASE OF IRREGULARITY
5.8.	<p>Determine whether management considered testing with:</p> <ul style="list-style-type: none"> <li>• Critical service providers;</li> <li>• Customers;</li> <li>• Affiliates;</li> <li>• Correspondent institutions; and</li> <li>• Payment systems and major financial market participants.</li> </ul>		
5.9.	<p>When testing with the critical service providers, determine whether management considered testing:</p> <ul style="list-style-type: none"> <li>• From the institution's primary location to the TSPs' alternative location;</li> <li>• From the institution's alternative location to the TSPs' primary location; and</li> <li>• From the institution's alternative location to the TSPs' alternative location.</li> </ul>		



# **APPENDICES**



## APPENDIX 'A'

### INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (INVESTMENT) REGULATIONS, 2000<sup>1</sup>

**F. No. IRDA/Reg./8/2000, dated 14-8-2000.**—*In exercise of the powers con-ferred by sections 27A, 27B, 27D and 114A of the Insurance Act, 1938 (4 of 1938), the Authority in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely :—*

#### **Short title and commencement.**

1. (1) These regulations may be called the Insurance Regulatory and Development Authority (Investment) Regulations, 2000.
- (2) They shall come into force on the date of their publication in the Official Gazette.

#### **Definitions.**

2. In these regulations, unless the context otherwise requires,—
    - (a) “Act” means the Insurance Act, 1938 (4 of 1938).
    - (b) “Accretion of funds” means investment income, gains on sale/redemption of existing investment and operating surplus.
- <sup>2</sup>[(ba) **“Investment Assets”** mean all investments made out of:
- (i) in the case of a Life Insurer
    - (a) shareholders funds representing solvency margin, non-unit reserves of unit linked insurance business, participating and non-participating funds of policyholders
    - (b) policyholders funds of pension and general annuity fund at their carrying value and
    - (c) policyholders unit reserves of unit linked insurance business at their market value and
  - (ii) in the case of a General Insurer
    - (a) shareholder funds representing solvency margin and policyholders funds at their carrying value

<sup>1</sup> As amended by Insurance Regulatory and Development Authority (Investment) (Fourth Amendment) Regulations, 2008

<sup>2</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

as shown in its balance sheet drawn as per the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2000, but excluding items under the head 'Miscellaneous Expenditure'.

(b) "Authority" means the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).

**<sup>1</sup>(ca) "Group" means:**

- (i) two or more individuals, association of individuals, firms, trusts, trustees or bodies corporate or any combination thereof, which exercises, or is established to be in a position to exercise, control, directly or indirectly, over any body corporate, firm or trust, or
- (ii) Associated persons,  
as may be stipulated by the Authority, from time to time, by issuance of guidelines under these regulations.

(cb) "Financial Derivatives" means a derivative as defined under clause (aa) of section 2 of the Securities Contracts (Regulation) Act, 1956, and includes a contract which derives its value from interest rates of underlying debt securities and such other derivative contracts as may be stipulated by the Authority, from time to time.]

**<sup>2</sup>(cc) Money Market Instruments**

Money Market Instruments shall comprise of Short term funds with maturity not more than one year comprising of the following instruments:

1. Certificate of deposit rated by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999.
2. Commercial paper rated by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999.
3. Repos, Reverse Repo
4. Treasury Bills
5. Call, Notice, Term Money
6. CBLO as per Schedule I and II of these Regulations.
7. Any other instrument as may be prescribed by the Authority.

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<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

<sup>2</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

- (d) "Principal Officer" means any person connected with the management of an insurer or any other person upon whom the Authority has served notice of its intention of treating him as the principal officer thereof.
- (e) All words and expressions used herein and not defined but defined in the Insurance Act, 1938 (4 of 1938), or in the Insurance Regulatory and Development Act, 1999 (41 of 1999), or in any Rules or Regulations made there under, shall have the meanings respectively assigned to them in those Acts or Rules or Regulations.

**[Regulation on Investment]**

**13(1)** 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)	Not exceeding 35% of the fund

<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

No.	Type of Investment	Percentage
	<p>b. Investment in housing and infrastructure by way of subscription or purchase of:</p> <ol style="list-style-type: none"> <li>1. Bonds/debentures of HUDCO and National Housing Bank</li> <li>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.</li> <li>3. Asset Backed Securities with underlying housing loans, satisfying the norms specified in the guidelines issued under these regulations.</li> </ol> <p>c. Investment in Infrastructure:</p> <p>(Explanation: Subscription or purchase of Bonds/Debentures, Equity and Asset Backed Securities with underlying infrastructure assets would qualify for the purpose of this requirement.</p> <p>'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>	Not less than 15% of the fund [(iii) b and c taken together]

(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)

No.	Type of Investment	Percentage
(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 policy-holders 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).

**[Regulation on Investment]**

14. (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)	Government Securities or Other Approved Securities	Not less than 30% of Investment Assets (incl (i) above)
(iii)	Investments as specified in Section 27B of Insurance Act, 1938 and Schedule II subject to Exposure/Prudential Norms specified in Regulation 5:  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)	Not exceeding 55%

<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

No.	Type of Investment	Percentage
	<p>b. Housing and loans to State Government for housing and fire fighting equipment, by way of subscription or purchase of:</p> <ol style="list-style-type: none"> <li>1. Bonds/debentures of HUDCO and National Housing Bank</li> <li>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</li> <li>3. Asset Backed Securities with underlying housing loans, satisfying the norms specified in the guidelines issued under these regulations.</li> </ol>	Not less than 5%
	<p>c. Investment in Infrastructure:</p> <p>(Explanation: Subscription or purchase of Bonds/Debentures, Equity and Asset Backed Securities with underlying infrastructure assets would qualify for the purpose of this requirement.</p> <p>'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>	Not less than 10%

- (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.***

<sup>1</sup>[Exposure/prudential norms.]

5. *Without prejudice to anything contained in Section 27A and 27B of Insurance Act, 1938, every insurer shall limit his investment based on the following exposure norms.*

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<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

Exposure norms for Life (including Unit linked business), General Insurance (including re-insurance) business for both Approved Investments as per Insurance Act, 1938, Schedule I and II of these Regulations, and Other Investments as permitted under 27A(2) and 27B(3) of the Insurance Act, 1938:

<b>Type of Investment</b>  <b>(1)</b>	<b>Limit for 'investee' company</b>  <b>(2)</b>	<b>Limit for the entire 'group' of the investee company</b>  <b>(3)</b>	<b>Limit for industry sector to which investee company belongs</b>  <b>(4)</b>
a. Investment in 'equity', preference shares, convertible debentures	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) which ever is lower.	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.	Investment by the insurer in any industrial sector shall not exceed 10% of its total investment exposure to the industry sector as a whole. The above percentage shall stand at 25% in the case of Unit linked funds.
b. Investment in debt/loans and any other permitted investments as per Act/ Regulation, other than item 'a' above.	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) which ever is lower.		(Classification of industrial sectors shall be done by the insurer on the lines of classification by <b>National Industrial Classification Code for Extra Territorial Organizations and Bodies in India (NIC)</b> or any other system which adopts NIC classification.)

**<sup>1</sup>Note:**

- Investments in equity including preference shares and convertible part of debentures shall not exceed 50% of above exposure norms as mentioned in the above table.

<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

2. 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.
3. Subject to exposure limits mentioned in the table above, an insurer shall not have investments of more than:
  - (i) 5% in aggregate of its total investments in companies belonging to the promoters' groups, if invested out of Life, Pension and General Annuity funds or General insurance funds and;
  - (ii) 12.5% in aggregate of its total investments in companies belonging to the promoters' groups, if invested out of Unit linked funds.

for the purpose of these regulations 'Group' shall have the same meaning as defined under these Regulations.

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 upto 15% with the prior approval of 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.
5. The exposure limit for financial and banking sector shall stand at 25% investment assets for all insurers.
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.

**<sup>1</sup>[Returns to be submitted by an Insurer.**

6. *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*

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<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

<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
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

No.	Form	Description	Periodicity of Return	Time limit for submission	Verified/ Certified by
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.

**[Power to call for additional information.]**

7. The authority may, by general or special order, require from the insurers such other information in such manner, intervals and time limit as may be specified therein.

**[Duty to Report extraordinary events affecting the investment portfolio.]**

8. Every insurer shall report to the Authority forthwith, the effect or the probable effect of any event coming to his knowledge, which could have material adverse impact on the investment portfolio and consequently on the security of policy-holder benefits or expectations.]

**<sup>1</sup>[Constitution of Investment Committee.]**

<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

## **9. *Organizational structure for Investment Management***

1. Every insurer shall constitute an Investment Committee which shall consist of a minimum of two non-executive directors of the Insurer, the Chief Executive Officer, Chief of Finance, Chief of Investment division, and wherever an appointed actuary is employed, the Appointed Actuary. The decisions taken by the Investment Committee shall be recorded and be open to inspection by the officers of the Authority.
2. Every Insurer shall draw up, annually an Investment Policy (fund wise investment policy in the case of unit linked insurance business) and place the same before its Board of Directors for its approval. While framing such policy, the Board shall ensure compliance with the following:
  - (i) Issues relating to liquidity, prudential norms, exposure limits, stop loss limits including securities trading, management of all investment risks, management of assets liabilities, scope of internal or concurrent audit of investments and investment statistics and all other internal controls of investment operations, the provisions of the Insurance Act, 1938 and Insurance Regulatory and Development Authority (Investment) Regulations, 2000, guidelines and circulars made there under.
  - (ii) Ensuring adequate return on policyholders and shareholders funds consistent with the protection, safety and liquidity of such fund(s).
  - (iii) The funds of the insurer shall be invested and continued to be invested in equity shares, equity related instruments and debt instruments rated as per Note below Regulation 3 and 4 by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations, `1999. The Board shall lay down clear norms for investing in 'Other Investments' as specified under section 27A(2) and 27B(3) of the Insurance Act, 1938 by the investment committee, taking into account the safety and liquidity of the policyholders' funds and protection of their interest.
3. The investment policy as approved by the Board shall be implemented by the investment committee, which shall keep the Board informed on a quarterly basis about its activities and fund(s) performance.
4. The Board shall review the investment policy and its implementation on a half-yearly basis or at such short intervals as it may decide and make such modification to the investment policy as is necessary to bring it in line with the investment provisions laid down in the Act and Regulations made there under, keeping in mind protection of policyholders' interest and pattern of investment laid down in these regulations or in terms of

the agreement entered into with the policyholders in the case of unit linked insurance business.

5. The details of the IP or its review as periodically decided by the Board shall be made available to the internal or concurrent Auditor. The auditor shall comment on such review and its impact on the investment operations, systems and processes in their report to be placed before the Board Audit Committee.
6. In order to ensure proper internal control of investment functions and operations the insurer shall clearly segregate the functions and operations of front, mid and back office.
7. The Authority may call for further information from time to time from the insurer as it deems necessary and in the interest of policyholders and issue such directions to the insurers as it thinks fit.

**[Miscellaneous.]**

10. (1) Valuation of Assets and Accounting of Investments shall be as per the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000.
- (2) The Authority may, by any general or special order, modify or change the application of sub-regulations (3), (4), (5) and (6) to any insurer either on its own or on an application made to it.]

**[Dealing in Financial Derivatives.]**

11. (1) Every Insurer carrying on the business of life insurance or general insurance may deal in financial derivatives only to the extent permitted and in accordance with the guidelines issued by the Authority in this regard from time to time.
- <sup>1</sup>(2) Any margin or unamortized premium paid by any insurer in connection with the financial derivatives to the extent they are reflected as asset position in the balance sheet of the insurer in accordance with the guidelines issued by the Authority, shall be treated as 'Approved Investment' under schedule I and schedule II to these Regulations, only to the extent the derivative position constitutes a hedge for the underlying investment or portfolio which itself is treated as an approved investments under these regulations. All other margins or unamortized premium paid, to the extent reflected in the balance sheet of the insurer in accordance

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<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

with the guidelines issued by the Authority in this regard from time to time, shall be treated as 'Other Investments'.

**<sup>1</sup>Schedule I**

**(See Regulation 3)**

**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 sub-section (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.

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<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

- (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 –**

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

***<sup>1</sup>Schedule II***

***(See Regulation 4)***

***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 sub-section (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:

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<sup>1</sup> Inserted by the Amendment Regulations, 2008, w.e.f. 30.07.2008.

- (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 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**

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

Company Name & Code:

Name of the Fund \_\_\_\_\_

Statement as on:

Statement of Investment and Income on Investment

Periodicity of Submission: Quarterly

Rs. Lakhs

[illegible]

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Signature \_\_\_\_\_

Full Name &amp; Designation

Date:

**Note:** Category of Investment (COI) shall be as per Guidelines

- 1 To be calculated based on Monthly or lesser frequency 'Weighted Agerage' of Investments.
- 2 Yield netted for Tax.
- 3 FORM-1 shall be prepared in respect of each fund.

FORM - 2

Company Name & Code:

Statement as on:

Statement of Down Graded Investment

Periodicity of Submission: Quarterly

Name of the Fund \_\_\_\_\_

Rs. Lakhs

No.	Name of the Security	COI	Amount	Date of Purchase	Rating Agency	Original Grade	Current Grade	Date of Downgrade	Remarks
A.	<u>During the Quarter <sup>1</sup></u>								
B.	<u>As on Date <sup>2</sup></u>								

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Signature \_\_\_\_\_  
Full Name & Designation

Date:

Note:

- 1 Provide details of Down Graded Investments during the Quarter.
- 2 Investments currently upgraded, listed as Down Graded during earlier Quarter shall be deleted from the Cumulative listing.
- 3 FORM-2 shall be prepared in respect of each fund.
- 4 Category of Investment (COI) shall be as per INV/GLN/001/2003-04.

FORM - 3A

Company Name & Code:  
Statement as on:  
Statement of Investment Assets (Life Insurers)  
(Business within India)  
Periodicity of Submission: Quarterly

PART - A

Total Application as per Balance Sheet (A)  
Add (B)

Provisions  
Current Liabilities

Reconciliation of Investment Assets  
Total Investment Assets (as per Balance Sheet)  
Balance Sheet Value of:

Sch-14  
Sch-13  
A. Life Fund  
B. Pension & Gen Annuity Fund  
C. Unit Linked Funds

Rs. Lakhs

Less (C)

Debit Balance in P&L A/c  
Loans  
Adv & Other Assets  
Cash & Bank Balance  
Fixed Assets  
Misc Exp. Not Written Off

Sch-09  
Sch-12  
Sch-11  
Sch-10  
Sch-15

Funds available for Investments

NON-LINKED BUSINESS

A. LIFE FUND		% as per Reg	SH		PH			Book Value (SH+PH)	Actual %	FVC Amount	Total Fund	Market Value
			Balance	FRSM+	UL-Non Unit Res	PAR	NON PAR					
			(a)	(b)	(c)	(d)	(e)	F= [b+c+d+e]				
1	G. Sec	Not Less than 25%										
2	G Sec or Other Approved Securities (incl (i) above)	Not Less than 50%										
3	Investment subject to Exposure Norms											
	a. Housing & Infrastructure	Not Less than 15%										
	b. i) Approved Investments	Not exceeding 35%										
	ii) "Other Investments" not to exceed 15%											
	TOTAL LIFE FUND	100%										

B. PENSION AND GENERAL ANNUITY FUND		% as per Reg	PH		Book Value	Actual %	FVC Amount	Total Fund	Market Value
			PAR	NON PAR					
1	G. Sec	Not Less than 20%							
2	G.Sec or Other Approved Securities (incl (i) above)	Not Less than 40%							
3	Balance in Approved investment	Not Exceeding 60%							
	TOTAL PENSION, GENERAL ANNUITY FUND	100%							

LINKED BUSINESS

C. LINKED FUNDS		% as per Reg	PH		Total Fund	Actual %
			PAR	NON PAR		
1	Approved Investment	Not Less than 75%				
2	Other Investments	Not More than 25%				
	TOTAL LINKED INSURANCE FUND	100%				

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Signature: \_\_\_\_\_  
Full Name: \_\_\_\_\_  
Designation: \_\_\_\_\_

Date:

**Note:**

(+) FRSM refers to 'Funds representing Solvency Margin'

Pattern of Investment will apply only to Shareholders (SH) funds representing FRSM ("F").

Funds beyond Solvency Margin shall have a separate Custody Account.

Other Investments' are as permitted under Section 27A(2) and 27B(3) of Insurance Act, 1938.

**FORM 3A**

Unit Linked Insurance Business

Company Name &amp; Code:

Periodicity of Submission: Quarterly

Statement as on:

Link to Item 'C' of FORM 3A (Part A)

PART - B

Par/Non-Par

Rs. Lakhs

PARTICULARS	Fund 1		Fund 2		Fund 'n'		Total of All Funds
	Actual Inv.	% Actual	Actual Inv.	% Actual	Actual Inv.	% Actual	
Opening Balance (Market Value)							
Add: Inflow during the Quarter							
Increase/(Decrease) Value of Inv [Net]							
Less: Outflow during the Quarter							
<b>TOTAL INVESTIBLE FUNDS (MKT VALUE)</b>							

INVESTMENT OF UNIT FUND	Fund 1		Fund 2		Fund 'n'		Total of All Funds	
	Actual Inv.	% Actual	Actual Inv.	% Actual	Actual Inv.	% Actual	Actual Inv.	% Actual
<b>Approved Investments (&gt;=75%)</b>								
Govt. Bonds								
Corporate Bonds								
Infrastructure Bonds								
Equity								
Money Market								
Mutual funds								
Deposit with Banks								
<b>Sub Total (A)</b>								
<b>Current Assets:</b>								
Accrued Interest								
Dividend Receivable								
Bank Balance								
Receivable for Sale of Investments								
Other Current Assets (for Investments)								

INVESTMENT OF UNIT FUND	Fund 1		Fund 2		Fund 'n'		Total of All Funds	
	Actual Inv.	% Actual	Actual Inv.	% Actual	Actual Inv.	% Actual	Actual Inv.	% Actual
<b>Less: Current Liabilities</b>								
Payable for Investments								
Fund Mgmt. Charges Payable								
Other Current Liabilities (for Investments)								
<b>Sub Total (B)</b>								
<b>Other Investments (&lt;=25%)</b>								
Corporate Bonds								
Infrastructure Bonds								
Equity								
Money Market								
Mutual funds								
<b>Sub Total (C)</b>								
<b>Total (A + B + C)</b>								
<b>Fund Carried Forward (as per LB 2)</b>								

Date :

Signature: \_\_\_\_\_  
Designation

**Note:**

1. The aggregate of all the above **Segregated Unit-Funds** should tally with **item C of FORM 3A (Part A)**, for both **Par & Non Par Business**
2. Details of **Item 12 of FORM LB 2 of IRDA (Acturial Report) Regulation, 2000** shall be reconciled with **FORM 3A (Part B)**
3. Other Investments' are as permitted under Sections 27A(2) and 27B(3).

FORM - 3A

Company Name & Code:

PART - C

Link to FORM 3A (Part B)

Statement for the period:

Periodicity of Submission: Quarterly

Rs. Lakhs

No.	Name of the Scheme	Assets Held on the above date	NAV as on the above date	NAV as per LB 2	Previous Qtr NAV	2nd Previous Qtr NAV	3rd Previous Qtr NAV	Annualised Return/Yield	3 Year Rolling CAGR
1	Fund 1								
2	Fund 2								
3	Fund n								
	Total	-							

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

DATE:

Signature: \_\_\_\_\_

Full Name & Designation

FORM - 3B

Company Name & Code:

Statement as on:

Statement of Investment Assets (General Insurer, Re-insurers)  
(Business within India)

Periodicity of Submission: Quarterly

Rs. in Lakhs

No.	PARTICULARS	SCH	AMOUNT
1	Investments	8	
2	Loans	9	
3	Fixed Assets	10	
4	Current Assets		
	a. Cash & Bank Balance	11	
	b. Advances & Other Assets	12	
5	Current Liabilities		
	a. Current Liabilities	13	
	b. Provisions	14	
	c. Misc. Exp not Written Off	15	
	d. Debit Balance of P & L A/c		
	Application of Funds as per Balance Sheet (A)	TOTAL (A)	
	Less: Other Assets	SCH	Amount
1	Loans (if any)	9	
2	Fixed Assets (if any)	10	
3	Cash & Bank Balance (if any)	11	
4	Advances & Other Assets (if any)	12	
5	Current Liabilities	13	
6	Provisions	14	
7	Misc. Exp not Written Off	15	
8	Debit Balance of P&L A/c		
		TOTAL (B)	
	'Investment Assets' As per FORM 3B	(A-B)	

No.	'Investment' represented as	Reg. %	SH		PH	Book Value (SH + PH)	% Actual	FVC Amount		Total	Market Value
			Balance	FRSM+							
			(a)	(b)	(c)	d = (b+c)		(e)	(d + e)		
1	G. Sec.	Not less than 20%									
2	G. Sec or Other Approved Sec. (incl. (1) above)	Not less than 30%									
3	Investment subject to Exposure Norms										
	1. 'Housing & Loans to SG for Housing and FFE, Infrastructure Investments	Not less than 15%									
	2. Approved Investments	Not exceeding 55%									
	3. Other Investments (not exceeding 25%)										
	Total Investment Assets	100%				-					-

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed

Date:

Signature: \_\_\_\_\_  
Full name: \_\_\_\_\_  
Designation: \_\_\_\_\_

Note:

- (+) FRSM refers 'Funds representing Solvency Margin'
- (\*) Pattern of Investment will apply only to SH funds representing FRSM
- (A) Book Value shall not include funds beyond Solvency Margin
- Other Investments' are as permitted under Sec 27A(2) and 27B(3)

# FORM - 4

## EXPOSURE AND OTHER NORMS – QUARTERLY COMPLIANCE CERTIFICATE

Company Name and Code:

Date: as at: .....

No	Norms applicable for	Exposure/Other Norms as per Regulation	Are the required Norms complied? (Yes/No)	Remarks
I.	Investee Company Exposure	<p>Investment in equity, preference shares, convertible debenture:-</p> <ol style="list-style-type: none"> <li>Exposure at any point of time not exceeded 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) which ever is lower.</li> <li>Investment in debt/loans and any other permitted Investments as per Act/Regulation, other than item 'a' above:-               <ol style="list-style-type: none"> <li>Exposure at any point of time not exceeded 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) which ever is lower.</li> <li>Subject to exposure limits as per Insurance Act, 1938, investment in equity and debt taken together had not exceeded 10% of the respective fund size in the case of life insurer or investment assets in the case of general insurer (including re-insurer).</li> </ol> </li> </ol>		
II.	Group of the Investee Company (Ref. Reg. 2(ca) of IRDA (Inv) Reg, 2000)	<ol style="list-style-type: none"> <li>Exposure at any point of time not exceeded 10% of the respective fund in the case of life insurer/ investment assets in the case of general insurer (including re-insurer) and 25% in the case of Unit linked business.               <ol style="list-style-type: none"> <li>Whether any additional exposure not exceeding 5% of respective fund, other than Unit linked funds, in the case of Life insurer/investment assets in the case of general insurer (including re-insurer) had been taken? If so, has the 'prior approval' of Investment Committee had been obtained?</li> </ol> </li> <li>Subject to exposure limits mentioned in the Regulations, had the Insurer invested more than 5% (12.5% in the case of Unit linked business) 'in aggregate' of its total investments in companies belonging to the promoters' groups. (For the purpose of this regulation 'Group' shall have the same meaning as defined under these Regulations).</li> </ol>		
III.	Industry sector to which the investee company belongs	<ol style="list-style-type: none"> <li>Investment by the insurer in any industrial sector had not exceeded 10% of its total investment exposure to industry sector as a whole?</li> <li>Has the insurer, in the case of Unit linked business, had invested in any industrial sector, not exceeded 25% of its total investment exposure to industry sector as a whole?</li> <li>Is the classification of industrial sectors been done on the lines of classification of industries done by NIC (National Industrial Classification Code for Extra Territorial Organizations and Bodies in India) or any other system which adopts NIC classification, consistently from period to period?</li> </ol>		

No	Norms applicable for	Exposure/Other Norms as per Regulation	Are the required Norms complied? (Yes/No)	Remarks
IV.	Others	<p>a. Has the Insurer fully complied with Regulation 9(6) of IRDA (Investment) (4th Amendment) Regulation, 2008 and point A.1.e of Annexure III to Circular – INV/CIR/008/2008-09?</p> <p>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?</p> <p>c. Has any investment been done in contravention of Section 27C of Insurance Act, 1938?</p> <p>d. Are Money Market Investments classified as per Regulation 2(cc) of IRDA (Investment) Regulations, 2000?</p> <p>e. Do investments of One Year Renewable Group Term Assurance Business (OYRGTA) follow the pattern of Life Business?</p> <p>f. Has any investment been made in contravention of point 1 of note for the purpose of Regulations 3 and 4 of IRDA (Investment) (4th Amendment) Regulation, 2008?</p> <p>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?</p> <p>h. Was 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-insure) fallen below the minimum percentage as required under point 7 of note under Regulations 3 and 4?</p> <p>i. Has the Insurer complied with the requirements under Regulation 8 of IRDA (Investment) Regulations, 2000.</p> <p>j. Has the insurer's Investment Policy (fund wise in the case of Unit linked business) has been approved by the Insurer's Board and has addressed all issues required under IRDA (Investment) Regulations, 2000? Also, has the investment policy been periodically reviewed?</p> <p>k. Has the performance of investments (including Unit linked fund(s)) been placed before the Board on a quarterly basis?</p> <p>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, to comply with the provisions of Section 11(1B) of Insurance Act, 1938?</p> <p>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?</p> <p>n. Has inter fund transfer, in the case of a life insurer, been done as per circular IRDA-FA-02-10-2003-04?</p> <p>o. Have the Assets been identified, for each segregated fund of Unit linked business, as per file &amp; use procedure approved by IRDA?</p>		

No	Norms applicable for	Exposure/Other Norms as per Regulation	Are the required Norms complied? (Yes/No)	Remarks
		<p>p. Has the insurer, in the case of Unit linked business, invested the assets, fund wise, as per pattern of investment approved by IRDA?</p> <p>q. Has the insurer, under shareholders funds, clearly split funds representing solvency margin (FRSM) in FORM 3A (Part A)/FORM 3B?</p> <p>r. Has shareholders funds, beyond solvency margin, have 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?</p> <p>s. Has the insurer conducted internal or concurrent audit for the reporting quarter and have 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?</p> <p>t. Has the Insurer complied fully with the directions of circular: IRDA/CIR/INV/062/JAN/05 dated January 17, 2005?</p> <p>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, NAV calculations?</p> <p>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?</p> <p>w. Has the Insurer, in respect of Unit linked products, reconciled the units with 'policy admin systems', on a day-to-day basis?</p> <p>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?</p> <p>y. Has the Insurer's investment in mutual fund complied with guidelines INV/GLN/004/2003-04 at all times during the quarter?</p>		

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Signature:.....

Chief Executive Officer

Signature:.....

Chief Investment Officer

Signature:.....

Chief Financial Officer

Date: .....

**FORM - 4A**

Company Name &amp; Code

Statement as on:

Investee Company Exposure Norms

Periodicity of Submission: Quarterly

**(Part A)**

Rs. in Lakhs

No.	Investee Company	Whether Equity/ Debt?	10% of Outstanding Sh (FV)/10% of (Sh.Cap + FR + Deb /Bonds) of Investee Company	10% of Fund Size/Total Investments	Least of Col (d) or (e)	Actual Investment	Deviation = Col (f) - Col (g) 3	Investee Company (Eq + Debt)	Deviation = Col (e) - Col (i)
a	b	c	d	e	f	g	h	i	j

**CERTIFICATION**

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: \_\_\_\_\_

**Note:**

1. Fund Size shall be as per FORM 3A (Part A)/FORM 3B
2. Above table shall be prepared Individually for all ULIP Funds
3. Only (-ve) deviations are to be reported

Signature

;

Full name

;

Designation

**FORM - 4A**

Company Name & Code

Statement as on:

Group Company Exposure Statement

Periodicity of Submission: Quarterly

**(Part B)**  
Rs. In Lakhs

Fund Size : \_\_\_\_\_

No	Name of the Group	Promoter/Non-Promoter Group	Total Investments subject to Exposure Norms	% of Total Investments

**Note:**

1. Total Investments as per FORM 3A (Part A) /FORM 3B

\_\_\_\_\_  
\_\_\_\_\_

**CERTIFICATION**

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Full Name & Designation: \_\_\_\_\_

\_\_\_\_\_

**FORM - 4A**

Company Name & Code  
Statement as on:  
Industry Sector Exposure Statement  
Periodicity of Submission: Quarterly

(Part C)  
Rs. In Lakhs

Fund Size : \_\_\_\_\_

No	Industry Sector (as per Regulations)	Total Investments subject to Exposure Norms	% of Total Investments

**Note:**

Total Investment as per Form 3A/3B

\_\_\_\_\_  
\_\_\_\_\_

**CERTIFICATION**

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Full Name & Designation: \_\_\_\_\_

FORM - 5

Company Name & Code:  
Statement as on:  
Statement of Investment Reconciliation  
(Business within India)  
Periodicity of Submission: Quarterly

Name of the Fund: \_\_\_\_\_

No.	Category of Investments	COI	Opening Balance		Pur. for the Period		Sales for the Period		Adjustments		Closing Balance			% to Total (1+2+3)
			Face Value	Book Value	Face Value	Book Value	Face Value	Book Value	Face Value	Book Value	Face Value	Book Value	Market Value	
1	G. Sec									Total (1)				
2	G. Sec or Other Approved Sec/Guaranteed Sec									Total 1+2]				
3	Investments subject to Exposure Norms													
	(a) Housing & Loans to State Govt for Housing/FFE													
	(b) Infrastructure Investments									Total 3(a)]				
	(c) Approved Investments									Total 3(b)]				
	(d) Other Investments									Total 3(c)]				
										Total 3(d)]				
TOTAL										Total [3 (a+b+c+d)]				
										Total (1+2+3)				

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Also, certified that all Cash Market transactions executed on the Stock Exchange are made only on Delivery basis.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Full Name & Designation \_\_\_\_\_

Note:

- Individual Categories under each of the above Major heads should be listed with Category Code.
- FORM-5 shall be prepared in respect of each fund.
- Each sub-total of FORM-5 shall be linked to its corresponding head in PART-A of FORM-3A/FORM-3B.
- 'Other Investments' are as permitted under Section 27A(2) and 27B(3).
- Guidelines on preparation of FORM 5 should be strictly followed.

FORM - 5A

Company Name & Code: \_\_\_\_\_

Statement as on: \_\_\_\_\_

Statement of Mutual Fund Investments

Periodicity of Submission: Quarterly

Name of the Fund: \_\_\_\_\_

PARTICULARS		COI	Op. Balance		Purchase for the Qtr		Sales for the Qtr		Cl. Balance		Market Value	% to Total Inv.
			Units	Amount	Units	Amount	Units	Cost of Sales	Units	Book Value		
<b>Approved Investments</b>												
MF - Gift/G Sec/Liquid Schemes		EGMF										
MF - (under Insurer's Promoter Group)		EMPG							Total (A)			
									Total (B)			
									Total (A+B)			
<b>Other Investments</b>												
MF - Debt/Income/Serial/Liquid Funds		OMGS										
									Total (C)			
MF - (under Insurer's Promoter Group)		OMPG										
									Total (D)			
									Total (C+D)			
									Total (A+B+C+D)			

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

FULL NAME & DESIGNATION \_\_\_\_\_

Note:

1. FORM-5A shall be prepared in respect of each fund.
2. Each sub-total of FORM-5A shall be linked to its corresponding head in FORM-5.
3. 'Other Investments' are as permitted under Section 27A(2) and 27B(3).
5. Guidelines on preparation of FORM 5 should be strictly followed.

FORM - 6

Company Name & Code:

Statement as on:

Name of the Fund:

Certificate under Section 28(2A)/28(2B)/28B(3) of The Insurance Act, 1938

Periodicity of Submission: Quarterly

Rs. In Lakhs

No.	Investment Particulars	Under the Custody of							Total (Rs) SH + PH
		Bank (Rs)		Self (Rs)		Others (Rs)			
		Share Holders	Policy Holders	Share Holders	Policy Holders	Share Holders	Policy Holders		
1	G. Sec								
2	G. Sec or Other Approved Securities								
3	Investment subject to Exposure Norms								
	a. Housing & Loans to State Govt. for Housing & FFE								
	b. Infrastructure Investments								
	c. Approved Investments								
	d. Other Investments								
	TOTAL								

We certify that the above mentioned securities are held free of any encumbrance, charge, hypothecation, or lien as on the above date.

Chairman

Chief Executive Officer

Director

Note:

1. Custodian should certify that he is not disqualified under SEBI (Mutual Fund) Regulations, 1996 as amended from time to time.
2. Value of the Securities shall be as per Guidelines.
3. In the case of Life Insurance Business, FORM-6 shall be prepared in respect of each fund.
4. The values under Certificate should be adjusted for Purchase/Sale of investments purchased and awaiting settlement.  
A reconciliation to this effect should be attached to the Certificate.

**FORM - 7**

Company Name & Code:  
Statement as on:  
Confirmation on Investment Portfolio  
Periodicity of Submission: Quarterly

No.	Particulars	Confirmation (Yes/No)
1	<i>Details of Approved Investments/Other Investments which have matured for payment and maturity amount is outstanding along with particulars of defaulted amount and period for which said default has continued:</i>	
2	<i>Any Investment as at (1), which subsequent to maturity have been rolled over:</i>	
3	<i>In respect of Investments where periodic income have fallen due, details of interest payment in default, along with period for which such default have persisted:</i>	
4	<i>Details of steps taken to recover the defaulted amounts, and the provisioning done/proposed in the accounts against such defaults:</i>	

**Certification**

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Full Name and Designation: \_\_\_\_\_

**Note:** If any of the confirmation is in the affirmative, details be provided.

FORM 7A

Company Name & Code:

Statement as on:

Details of Investment Portfolio

Periodicity of Submission: Quarterly

Name of the Fund \_\_\_\_\_

COI	Company Name	Instrument Type	Interest Rate		Total O/s (Book Value)	Default Principal (Book Value)	Default Interest (Book Value)	Principal Due from	Interest Due from	Deferred Principal	Deferred Interest	Rolled Over?	Has there been any Principal Waiver?		Classification	Provision (%)	Provision (Rs)
			%	Has there been revision?									Amount	Board Approval Ref			

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
Full Name & Designation \_\_\_\_\_

Note:

- A. Category of Investment (COI) shall be as per INV/GLN/001/2003-04
- B. FORM 7A shall be submitted in respect of each 'fund'.
- C. Classification shall be as per F&A-Circulars-169-Jan-07 Dt. 24-01-07.

## Appendix 'B'

### **Circular No. INV/CIR/008/2008-09 dated 22.08.2008 issued by IRDA to Insurers**

The CEOs of all Insurers

Dear Sir/Madam

#### **Sub: IRDA (Investment) (Fourth Amendment) Regulations, 2008 - Reg.**

1. As you are aware, a Working Group was set up by the Authority, to review comprehensively the current regulatory and other provisions on Investments of Insurance companies and suggest changes considered necessary in the light of experience gained/the constraints faced by Insurance Companies, as well as the developments in Financial Markets. The Working Group reviewed the statutory provisions on the pattern of Investment, Operational and Policy issues of Investment Regulations and suggested amendments that would provide flexibility to the Authority in the manner of Regulation on Investment of Life and General Insurance Companies. The Group also looked into the concurrent modifications in the formats of the prescribed Returns to reflect the changes.
2. The recommendations of the Working Group have been examined by the Authority in the light of legal provisions and keeping in view the interests of the stakeholders. The implementation of some of the proposals requires appropriate changes in Regulations and evolution of suitable regulatory framework. It was also observed by the Authority while monitoring compliance with the regulations over a period that some of the extant instructions/guidelines also needed clarity and consistency.
3. Accordingly, the Authority has initiated action to amend the provisions of IRDA Investment Regulations, 2000 in order to implement the recommendations of the Working Group and also to effect such changes that are considered necessary to clarify the existing regulatory requirements. A copy of the Gazette notification on the amended regulations is available at our website [www.irdaindia.org](http://www.irdaindia.org). Insurers are advised to peruse the notification to take the modifications on record for further compliance. For the sake of convenience a brief summary of the changes proposed to be effected in the Regulations is furnished in Annexure – I.
4. Besides the amendment in regulations, it has also been decided to effect some modifications in the extant Guidelines/Circulars on investment portfolio [Annexure - II] and also introduce certain

requirement on the Systems/Process of investment in the context of Risk Management requirements. The proposals in this regard are outlined in Annexure – III.

5. Insurers are advised to place the Circular before the Board at the next meeting in order to apprise the Directors of the important changes brought about in the management of investment portfolio. The Board should also be advised of the specific time bound action taken to comply with the requirements on investment systems and process wherever considered necessary.
6. The changes would be effective from the dates indicated therein.

**C. R. Muralidharan**  
**Member**

## Annexure I

### AMENDMENT TO IRDA (INVESTMENT) REGULATIONS, 2000

REG. NO.	REGULATION	IMPLICATION OF AMENDMENT
1	<b>DEFINITIONS</b> Investment Assets  Group  Money Market Instruments	a. Investment Assets of Life and General Insurance Companies have been defined along with valuation methods. b. Group will include Financial Institutions for the purpose of Exposure calculations. c. Money Market Instruments include rated CDs, CPs, TDs, Repo, Reverse Repo, Treasury Bills, Call, Notice, Term Money, CBLO with maturity less than one year.
2	<b>RENAMING OF OTHER THAN APPROVED INVESTMENTS</b> The Insurance Act, 1938 under Sections 27A (2) and 27B (3) refers to investment permitted under these sections as 'Otherwise than in an Approved Investments' and the IRDA (Investment) Regulations, 2000 had interpreted it as 'Other than Approved Investments'.	a. This category of Investments will henceforth be referred to as 'Other Investments'. b. All provisions of the Act, Regulations, Circulars and Guidelines pertaining to investments falling under Sections 27A (2) and 27B (3) of Insurance Act, 1938 shall continue to be applicable as such.

REG. NO.	REGULATION	IMPLICATION OF AMENDMENT
3.	<p><b>REGULATION OF INVESTMENTS</b> Exposure Norms</p> <p>Infrastructure Investments</p> <p>Mortgage Backed Securities (MBS)</p> <p>Approved Investments and Rating Requirement</p>	<p>a. It is now proposed that the Exposure Norms would be applicable to ULIP Business also.</p> <p>b. Infrastructure facility had been aligned as per the definition of Reserve Bank of India.</p> <p>c. Infrastructure Investments would be subject to Investee, Group Exposure.</p> <p>d. Investment in MBS, rated as per Guidelines, will fall under 'Approved Investments' and will qualify for investment under 'Housing Sector' for the purpose of pattern of Investments.</p> <p>e. MBS will be subject to Industry Sector Exposure Norms.</p> <p>f. It is now proposed to recognize securities complying with the following criteria as 'Approved Investments'.</p> <p>i. Bonds/Debentures issued by companies (including All India Financial Institutions, recognized by RBI as such) shall be rated not less than AA or its equivalent and P1 or Equivalent ratings for Short term Bonds/ Debentures/ CDs and CPs.</p> <p>ii. Tier II Bonds of Banks, complying with the above rating criteria, will be classified under Approved Investments.</p>

REG. NO.	REGULATION	IMPLICATION OF AMENDMENT
		<p>g. Assets/Instruments, downgraded below the minimum rating prescribed above, should automatically be re-classified under 'Other Investments' category for the purpose of pattern of Investments.</p> <p>h. The above approach will be reviewed based on experience after a period of two years.</p> <p>i. 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.</p> <p>j. The modification will be effective from August 1, 2008</p>
5.	<p><b>COMPLIANCE TO EXPOSURE NORMS</b></p> <p>IRDA (Investment) Regulations, 2000 requires exposure norms to be calculated based on Controlled Fund and Total Assets in the case of Life and General Insurance Companies respectively.</p> <p>Regulation 3 of IRDA (Investment) Regulations, 2000, in terms of explanation in Section 27A of the Act, had determined that assets relating to Pension Business, Annuity Business and Linked Life Insurance.</p>	<p>a. The Authority, to remove the differential treatment of provisions applicable to Public Sector and Private Sector Insurers, had amended the exposure norms as follows:</p> <p>b. 10% of Outstanding Shares (Face Value) or 10% of Fund size, whichever is lower, can be invested in Equity Shares of Investee Company.</p> <p>c. Sum of 10% of Subscribed Share Capital, Free Reserves and Debentures/Bonds of</p>

REG. NO.	REGULATION	IMPLICATION OF AMENDMENT
	Business would not form part of Controlled Fund for the purpose of that section.	<p>Investee Company or 10% of Fund size, which ever is lower, can be invested in Debt instruments of Investee Company.</p> <p>d. A maximum of 5% of Investments Assets of General Insurers or 5% of Investment Assets of funds relating to life funds, pension and general annuity funds in the case of life insurer can be invested in Immovable Property as per Section 27A(1)(n) of Insurance Act, 1938.</p> <p>e. A maximum of 25% of Investment Assets can be invested in Banking and Financial Sector instruments.</p> <p>f. Not less than 75% of debt instruments excluding Government and Other approved Securities – fund wise, in the case of life insurer and Investment assets in the caser 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 funds(s).</p> <p>g. FDs, TDs, CDs invested as per Sections 27A(9) and 27B(10) of the Act and subject to Promoter Group Exposure limits, would not be deemed as Exposure to Banking Sector.</p>

REG. NO.	REGULATION	IMPLICATION OF AMENDMENT
	Treatment of Free Reserves	<p>h. Free Reserves of the Investee Company, recognized in Regulations 5 of IRDA (Investment) Regulations, 2000 under Investee Company Exposure Norms will be considered under 27A(3), 27A(4), 27B(4) &amp; 27B(5) in addition to the Subscribed Share Capital and Debentures of the Investee Company.</p> <p>i. At any point of time, exposure to a single Investee Company under 27A (3) and 27B (4) shall not exceed 10% of the sum of Subscribed Share Capital, Free Reserves and Debenture/Bonds, taken as per the previous year Balance Sheet of the Investee Company.</p>
6.	<p><b>RETURNS TO BE FURNISHED</b></p> <p>Introduction of new periodical returns and amendment to existing returns.</p>	<p>a. All forms have been amended for the various decisions reached.</p> <p>b. All returns are required to be filed on a Quarterly basis. The period of submission has been increased from 21 to 45 days to ensure proper sync with Actuarial returns.</p> <p>c. FORM 3C is no more required to be filed.</p> <p>d. FORM 7A is introduced to capture details of Non-Performing Assets.</p>

REG. NO.	REGULATION	IMPLICATION OF AMENDMENT
7.	<p><b>CONSTITUTION OF INVESTMENT COMMITTEE AND INVESTMENT POLICY</b></p> <p>Investment Committee</p> <p>Investment Policy and Investment Department</p>	<ul style="list-style-type: none"> <li>a. Chief of Investment (CIO) and Chief of Finance (CFO) will be different individuals in the Investment Committee (IC)</li> <li>b. Investment Policy need not be filed with the Authority. But is required to be drawn in respect of each Unit linked fund.</li> <li>c. Investment Policy should address all risks, Scope of Internal and Concurrent Audits including investment Statistics.</li> <li>d. To ensure internal control of Investment function, the Insurer is required to segregate operations and functions between Front, Mid and Back Office. Further, the Front office will report through CIO to the CEO. The Mid and Back Office, headed by separate personnel, will report through CFO to the CEO.</li> <li>e. Issues relating to Internal and Concurrent Audit made clear. Audit is made to cover Investment Operations and System &amp; Process supporting Investment Operations.</li> </ul>

### **1. NEED FOR INVESTMENT SYSTEMS**

IRDA (Registration of Companies) Regulations, 2000 under Regulation 7 (c) of Chapter II requires every Insurer to carry on all functions in respect of the Insurance business including management of investments within its own organization. In the context of the increasing volumes of the Unit linked life Insurance business and consequent market risk being assumed by the policyholders, it is appropriate to specify the minimum requirements for risk management systems within the Insurers, with particular reference to the investment activity (Please see Annexure – III enclosed). The Investment Risk Management Systems & Processes specified, outline the minimum requirement to be in place. While it is likely that some of the Insurers have already put in place adequate systems and processes consistent with the proposals, there may be others who need to modify the systems to achieve compliance. Hence the effective date for adoption of the suggested measures by all insurers shall be not later than December 31, 2008. All Insurance Companies, seeking registration henceforth shall comply with this guideline, as a part of the registration process. The Authority advises that a Chartered Accountants firm, who is not the Statutory or Internal or Concurrent Auditor of the concerned Insurer and having a minimum of three to four years audit experience of IT systems, risk management and process controls of Banks or Mutual Funds or Insurance Companies, shall certify that the Investment Risk Management Systems and Processes envisaged by these guidelines are in place and working effectively. The Insurer shall file with the Authority, the Chartered Accountants certificate not later than the 1st week of January, 2009.

### **2. RENAMING OF OTHER THAN APPROVED INVESTMENTS AS 'OTHER INVESTMENTS'**

The Insurance Act, 1938 under Sections 27A (2) and 27B (3) refers to investment permitted under these sections as 'otherwise than in an approved investment'. IRDA (Investment) Regulations, 2000 refers it as 'other than approved investments'. For simplicity, this category of investment will henceforth be referred to as 'Other Investments'. All provisions of the Act, Regulations, Circulars and Guidelines pertaining to investments falling under Sections 27A (2) and 27B (3) of Insurance Act, 1938 shall continue to be applicable as such.

### **3. TREATMENT OF FREE RESERVES AND EXPOSURE**

The Insurance Act, 1938 under Sections 27A (3), 27A (4), 27B (4) and 27B (5) allows exposure to banking companies, investment companies

and other companies based on the least of Capital Employed or the specified percentage of 'controlled fund' in the case of Life insurer and 'assets' in the case of general insurance companies. Further, the Insurance Act, 1938 do not recognize 'free reserves' as a part of capital employed, though the same is recognized in IRDA (Investment) Regulations, 2000 for calculating the investee company exposure norms. It is now clarified that:

- a. In addition to subscribed capital and debentures, 'free Reserves' of the investee company, recognized in Regulations 5 of IRDA (Investment) Regulations, 2000 under investee company exposure norms, shall be considered in calculating the exposure under 27A(3), 27A (4), 27B (4) and 27B (5).
- b. Also, at any point of time, the exposure to Investee Company under Sections 27A(3) and 27B(4) shall not exceed 10% of the sum of paid-up share capital, free reserves and debenture/bonds, taken as per the audited balance sheet not more than one year old of the investee company.
- c. The effective date for adoption of norm by all insurers shall be from August 1, 2008.

#### **4. INVESTMENT IN IPOs**

The Authority had issued Circular INV/CIR/046/2004-05 Dt: November 8, 2004 on Investment in Initial Public Offer which was further modified vide Circular INV/CIR/059/2004-05 dated December 28, 2004. As compliance with a few conditions mentioned in the above circular posed operational difficulties, the guidelines have been reviewed to effect the following changes:

- (i) Equity Shares offered through IPO which comply with the criteria listed in the circular INV/CIR/046/2004-05 dated November 8, 2004 for categorization as 'Approved Investments' would henceforth include 'Offer for sale' also.
- (ii) The criterion on minimum size of the IPO including Offer for Sale for investment by Insurers would now stand uniform at Rs. 200 Crores in super session of the instructions at item 2 and 3 of our Circular of November 8, 2004 and that contained in Circular INV/CIR/059/2004-05 dated December 28, 2004.
- (iii) It has now been decided that the details of investments in Equity Shares through IPOs required to be filed with IRDA vide Circular dated November 8, 2004 need not be filed with the Authority with effect from August 1, 2008

- (iv) It has also been decided to prescribe the following limits for investments in IPOs by insurers:

### **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 lesser 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 bid amount (and not Margin Money) to be invested in IPO shall be the lesser 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.

## **5. INVESTMENT IN MUTUAL FUNDS**

As Gilt, G Sec and Liquid Mutual Funds, predominantly invest in Government Securities and Money Market instruments, the Authority has decided to revise the existing guidelines on investment in Mutual Funds. These investments in Gilt, G Sec and Liquid Mutual Funds would form part of 'Approved Investment' 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. This Guideline shall be effective from August 1, 2008.

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 along with the norms mentioned below.

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

The investment shall be restricted to schemes of Mutual Funds comprising of Liquid, Gilt, G Sec or Debt/Income funds and subject to the following conditions:

- i. The Mutual Fund should be registered with SEBI and be governed by SEBI (Mutual Funds) Regulations, 1996.

- ii. Gilt, G Sec, Liquid MFs, Debt/Income 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/Investment Assets.

#### B. 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:

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

- ii. In addition to the above, the maximum investments in Mutual Funds falling under 'Other Investments' Category, shall be as follows:

Nature of Business	Private Sector		Public Sector	
	Life Fund	ULIP	Life Fund	ULIP
Life	7.5%	12.5%	3%	5%
Non Life	12.5%		5%	

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

Life Companies	-	to individual Fund Size
General Insurance Companies	-	to Investment Assets.

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

#### C. 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.

#### 6. INVESTMENT IN ASSET BACKED SECURITIES, PTCs & SRs

The extant Guidelines INV/GLN/001/2004-05 dated January 1, 2004 allow investment in Pass through Certificates (PTC) under Approved Sectors, namely 'Infrastructure/Social Sector'. The Authority, after

considering the request of Insurers, the significant growth of this market and the suitability of these instruments to match the long term liabilities of insurers has decided to reckon them as 'Approved Investments' subject to the following conditions. Hence, Asset Backed Securities, but only with underlying Housing loans and infrastructure assets would be reckoned to be part of Approved Investments subject to exposure norms, under Housing, Infrastructure Sector Investments for the purpose of Regulation 3 and 4 of IRDA (Investment) Regulations, 2000 as modified now. This Guideline shall be effective from August 1, 2008.

The investment in Asset Backed Securities with underlying Housing and/or Infrastructure assets [as defined under Regulation 2(h) of IRDA (Registration of Indian Insurance Companies) Regulation, 2000] may be deemed as a part of "Approved Investments" and Pass Through Certificates (PTCs), Asset backed Securities (ABS) 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 are 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) 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 case of Life Companies and not more than 5% of Investment Assets in the case of General Insurers.

6. 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.
7. All guidelines of Classification, Income Recognition and Valuation of Assets issued by the Authority shall be applicable to such investments.

## **7. INVESTMENTS IN PERPETUAL DEBT INSTRUMENTS**

In terms of the Circular IRDA/INV/CIR/005/2006-07 Dt. April 28, 2006 on 'Investment in Innovative Perpetual Debt Instrument of Bank Tier 1 Capital and Debt Capital of Banks Upper Tier 2 Capital' within certain limits are considered under 'Approved Investment'. As it is represented that the current ceiling on maximum investment in the bonds is restrictive, IRDA has reexamined the issue and has decided to delete the maximum permissible limit for such instruments by Life and General Insurers prescribed in paras 3 and 4 of the above Circular dated April 28, 2006. The revision will be effective from August 1, 2008.

## **8. INVESTMENT IN VENTURE FUNDS**

The Authority vide Circular INV/CIR/007/2003-04 dated: December 15, 2003 had listed the conditions and maximum investment that can be made in Venture Funds. While investment in Venture Funds would continue to be categorised under 'Other Investments' as per IRDA (Investment) Regulations, 2000 as amended from time to time, the following special guidelines may be kept in view in respect of Venture Funds:-

1. 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.
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 February 11, 2008.]

3. Investments in Venture Fund(s) shall be subject to the following exposure norms:

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

The above conditions supersede those issued in the Circular INV/ CIR/007/2003-04 dated: December 15, 2003. The new Guidelines will be effective from August 1, 2008.

## 9. APPOINTMENT OF CUSTODIAN

Section 28B(3) of The insurance Act, 1938 requires every insurer to submit, along with the returns referred to in Sections 28B(1) and 28B(2), a statement, where any part of the assets are in the custody of a Banking Company, from that company, and in any other case, from the Chairman, two directors and the Principal Officer, of the company specifying the assets, which are subject to a charge and certifying that the other assets are held free of encumbrance, charge, hypothecation or lien. The Authority, has also prescribed FORM 6 in the IRDA (Investment) Regulations, 2000 for the certification. Currently the custodian appointed by the Insurer (which could be either belonging to the Insurer's promoter group or otherwise) issues a certificate to the above effect and the Insurer, as required under the Act, certifies that the Assets held are free from encumbrance, charge, hypothecation or lien.

Considering the implications of the certification by the Custodian belonging to the Insurers Promoter Group of the Insurer, it is decided that all insurers should comply with the following norms:

### A. Appointment of Custodian

- (i) The Board of the Insurance Company shall be responsible for the appointment of Custodian to carry out the custodial service for its Investments.
- (ii) No custodian in which the promoter or its associates hold 50% or more of the voting rights of the Share Capital of

the custodian or where 50% or more of the Directors of the Custodian represent the interest of the promoter or its associates shall act as Custodian for the Insurance Company constituted by the same promoter or any of its associates or subsidiary company.

**B. Agreement with Custodian**

- (i) The Insurer shall enter into a custodial agreement with the Custodian, which shall contain the clauses, which are necessary for the efficient and orderly conduct of the affairs of the Custodian.
- (ii) The agreement, the services contract, terms and appointment of the Custodian shall be entered into with the prior approval of the Board.

Insurers who are not compliant currently with the above conditions shall take immediate steps to achieve compliance not later than December 31, 2008, under intimation to the Authority.

**10. SEGREGATION OF SHAREHOLDERS & POLICYHOLDERS FUNDS**

The Insurance Act, 1938 under Section 11 (1B) requires 'Every insurer to keep separate accounts relating to funds of shareholders and policyholders'. Taking note of representations of general insurance companies, as a measure of practical application, the provisions of Section 11(1B) would be deemed to have been complied with, in the case of General Insurance Company, if Investments are 'allocated' to the policyholders' funds to the extent of the Technical reserves in respect of general insurance business and the specific liabilities of general insurance business and the balance shown as Shareholders' funds. However, a Life Insurer should continue to maintain strict segregation of Investments between Shareholders and Policyholders funds at 'Scrip' level for every individual fund under any class of business without making arbitrary transfer of investments from one fund to another. Further, both Life and General insurers should make necessary arrangements (through a separate Custody Account) to facilitate identification of investment out of Shareholders funds that do not support Solvency Margin and which is not covered by the prescribed pattern of Investments. This Guideline shall be effective from December 31, 2008.

**11. OUTSOURCING OF INVESTMENT ADVICE**

The Authority, considering the cost involved in setting up Research and advisory divisions would permit outsourcing of Investment advice

only at the initial stages and till the insurers attain a Fund Size of Rs.500/- Crores Assets under Management (AUM) or two years from the commencement of business, which ever is earlier, subject to the following conditions:

- a. The Investment decisions are made within the Company with proper documentation within the delegated power as provided in the Investment Policy.
- b. Deal placement and execution are done by the Front Office personnel.
- c. Periodic reports to Management and Authority are drawn by the Company (in-house).
- d. The advisory fee to be paid to the Service Provider is on a case-to-case basis and not on Net Asset Value.

The advisory fee shall:

- a. not form part of NAV calculations in the case of ULIP business
- b. be paid out of Shareholders funds not representing Solvency Margin.

The Authority may, on an application made to it by an existing insurer, for valid reasons, grant a further period of time of not more than one year to comply with the above direction.

## **12. OUTSOURCING OF 'NAV' CALCULATION**

The permission to outsource Computation of NAV would be available only up to attainment of Fund Size of Rs.500/- Crores (Assets under Management) or two years from the commencement of business, which ever is earlier. Also, the fees paid to the service provider shall not form part of NAV calculations.

The Authority may, on an application made to it by an existing insurer, for valid reasons, grant a further period of time of not more than one year to comply with the above direction.

**INVESTMENT RISK MANAGEMENT SYSTEMS & PROCESSES**

**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 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 under the overall responsibility of Chief Financial Officer (CFO) who shall independently report to the CEO.

**2. EMPLOYEE DEALING GUIDELINES**

- a. The Standard Operating Procedure followed by the Insurer shall clearly specify the Guidelines to be adhered by the Dealer i.e., 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**

- a. 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**

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

## **5. BUSINESS CONTINUITY PROCESS**

- a. 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**

- a. 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**

- a. 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 within the Market hours only.)

## **C. MID OFFICE**

### **1. MARKET RISK**

- a. The system should be capable of computing various portfolio returns.
- b. Regular limits 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 investment 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 be breached.

- b. The System should have capability of generating Exception reports for Audit by Internal/Concurrent Auditor.

**5. REVIEW, MONITORING AND REPORTING**

- a. 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**

- a. 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**

- a. 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 upto a period of seven days following the date of the 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 ongoing basis.
  - (iv) A log of NAV errors shall be maintained in the System and be forwarded to Internal/Concurrent Auditors.

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

- a. All Equity deals should be through STP gateway for all broker transactions.

#### **5. UPLOADING OF VALUATION PRICE FILES**

- a. 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.

## **E. INTERNAL/CONCURRENT AUDIT**

- a. An Insurer having Assets under Management (AUM) not more than Rs.1000 Crores shall conduct a Quarterly Internal Audit to cover both Transactions and related Systems. Insurers having AUM above Rs.1000 Crores should appoint a Chartered Accountant firm for Concurrent Audit, to have the transactions and related Systems audited.
- b. The Audit Report shall clearly state the observation at transaction level and its impact, if any at System level. The Audit Report shall be based on Exception Reporting.
- c. The Auditor shall clearly state that the Insurer had done the reconciliations as required under point 4.6.6.a and 4.6.6.b
- d. Segregation of Shareholders & Policyholders' funds
  - 1. In the case of a Life Insurer, each individual fund, both falling under Shareholder/Policyholders', under any class of business, has 'scrip' level investments to comply with the provisions of Section 11(1B) of Insurance Act, 1938
  - 2. Furthermore the Shareholders funds beyond Solvency Margin, to which the pattern of Investment will not apply, shall have a separate custody account with identified scrips for both Life and General Insurance Companies.
- e. The Insurer is required to place the Audit Report before the Audit Committee and implement all its recommendations.
- f. The Insurer shall, along with Quarterly Investment Returns to be filed with the Authority, shall confirm in FORM 4, that the Internal/ Concurrent Audit observations, up to the Quarter preceding the Quarter to which the Returns are filed, were placed before the Audit Committee for its recommendation and action taken.

**Note:** Points **A (5.a.1)** and **D (3)** are specific to ULIP Business.

## **Appendix ‘C’**

### **RELEVANT PORTIONS OF THE CIRCULARS OF IRDA ON INVESTMENT FUNCTION OF INSURANCE COMPANIES**

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

**[Vide Point 4 of Circular INV/CIR/008/2008-09 Dt. August 22, 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 (Section 27A) in the case of Life Insurance Companies
  - b. for at least 3 past years as “unlisted” company as prescribed in the Insurance Act (Section 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 August 1, 2008.
9. The details of investments in Equity Shares through IPOs required to be filed with IRDA vide Circular dated November 8, 2004 need not be filed with the Authority with effect from May 1, 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 August, 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.

### **A. 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.

### **B. 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:

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

- ii. In addition to the above, the MAXIMUM investments in MFs falling under 'Other Investments' Category, shall be as follows:

Nature of Business	Private Sector		Public Sector	
	Life Fund	ULIP	Life Fund	ULIP
Life	7.5%	12.5%	3%	5%
Non Life	12.5%		5%	

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

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.

### C. VALUATION OF MUTUAL FUND INVESTMENTS

- 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.
- A separate Fair Value Change Account for Mutual Fund Investments shall be maintained.
- 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. August 22, 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. August 22, 2008]**

The Reserve Bank of India [vide Master Circular DBOD.No.BP. BC.57/21.01.002/2005-2006 dated January 25, 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 Sections 27A and 27B of Insurance Act, 1938, under powers vested in Sections 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 Sections 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 re-classified 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 re-classified 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. August 22, 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 February 11, 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 "Venture Fund"	<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

## F. OUTSOURCING OF INVESTMENT FUNCTION

**[Vide Point 11 and 12 of Circular INV/CIR/008/2008-09 Dt. August 22, 2008]**

It has come to the notice of the Authority that some of the Private Sector Insurance Companies have outsourced some of their Investment Functions. In this connection your attention is drawn to IRDA (Registration of Companies) Regulations, 2000, as amendment from time to time, Regulation 7 (c) which states:

“The applicant will carry on *“all functions”* in respect of insurance business including *“management of Investment”* within its own organization.”

As Investment of Insurance funds is a core function and has a bearing on Financial soundness of Insurers, the IRDA Regulations do not permit outsourcing of Investment Functions.

The Investment functions include the following activities:

1. Laying down Investment Policy.
2. Asset Liability Management commensurate with the “nature” of underlying liabilities.
3. Approval of Investment proposals.
4. Investment Decision making.
5. Asset Allocation (between fixed Income securities and Equity Instruments).
6. Compliance with Insurance Act, 1938 and IRDA Regulations.
7. Reporting to IRDA.
8. Review and Monitoring of Investments.
9. Review of Investment Policy and Investment Mandate
10. Front Office
  - a. *Market Scanning*
  - b. *Generation & Processing of Quotes*
  - c. *Price Negotiation & Qualifying Conditions*
  - d. *Deal Execution & Order Placement.*

## 11. Back Office

- a. *Independent Deal Confirmation*
- b. *MIS & Reporting*
- c. *Risk Management*
- d. *Settlement, Delivery & Accounting*
- e. *Internal & Regulatory Compliance*

Engaging a specialist to provide reports on any class of investment or a specific investment in a purely advisory capacity will not be considered as outsourcing of a function of the Insurer, provided the Assets under Management of the Insurer is not more than Rs.500 Crores or had not completed two years of operations from the date of Registration by issue of R3, which ever is earlier, subject to the following conditions:

- a. The Investment decisions are made within the Company with proper documentation within the delegated power as provided in the Investment Policy.
- b. Deal placement and execution are done by the Front Office personnel.
- c. Periodic reports to Management and Authority are drawn by the Company (in-house).
- d. The Advisory fee to be paid to the Service Provider is on a case-to-case basis and not on Net Asset Value.

The Advisory fee shall:

- a. Not form part of NAV calculations in the case of ULIP business.
- b. Be paid out of Shareholders funds not representing Solvency Margin.

However any such arrangement may only be made with the prior approval of the Authority, giving full details of the same including any Agreement to be entered into, in this connection.

### **OUTSOURCING OF INVESTMENT FUNCTION – LIFE INSURERS**

1. This is further to the previous Circular INV/CIR/031/2004-05 dated July 27, 2004, on the above subject. The Authority has received representations from Insurance Companies, that in the context of growth in Unit Linked Life Insurance Business, whereunder specialist skill and expertise is essential, with regard to compilation of up-to-date data and calculation of Net Asset Value (NAV) under Unit Linked Insurance Products (ULIP). The Insurance companies also represented that there

are considerable advantages in outsourcing the function of calculation of NAV under Unit Linked Insurance Policies, specially in the case of companies with fund size which is small and the calculation of NAV in house would require large investment in acquisition of hardware and software and which will be underutilized. So, they requested that the Insurers be allowed to outsource Custodial services and calculation of NAV under ULIP.

2. It is hereby clarified that the circular dated July 27, 2003 did not contemplate prohibition of outsourcing of custodial services. Insurance companies are hereby informed that they can outsource custodial services.
3. Keeping in view the representations by the new private insurance companies regarding the function of calculation of NAV under ULIP, the Authority hereby permits outsourcing of calculation of NAV [upto Assets under Management of the Insurer is not more than Rs.500 Crores or had not completed two years of operations from the date of Registration by issue of R3, which ever is earlier] provided that the service provider:
  - a. Is a regulated custodial service provider with experience and expertise in NAV computation?
  - b. Is not part of a 'Group' as defined under Regulation 2 (ca) of IRDA (Investment) Regulations, 2000 as amended from time to time and Guidelines issued there under?
  - c. Complies with all consumer laws and regulations.
  - d. Maintains confidentiality and protects data from intentional or inadvertent disclosure to unauthorised persons.
  - e. Has a comprehensive and effective system for disaster recovery and periodic testing of backup facilities.
  - f. Has an adequate system to address all Operational Risks arising out of technology, errors and frauds.
  - g. Provides full access to all records and other material to the IRDA or its authorised representatives to the same extent as it were a department of the insurer.
  - h. The outsourcing agreement shall contain an exit clause providing for smooth transfer of records and functions to the insurer or its nominated contractor in the event of the outsourcing agreement being terminated, without imposing onerous penalties for termination.

- i. Is subjected to periodical Audit, including Systems Audit, by the insurer or its authorised representatives.
- 4. Further, the insurer shall confirm to the Authority that it:
  - a. Has established a comprehensive policy to guide the assessment of outsourcing activity and its periodic review.
  - b. Has applied due diligence in selecting the Service Provider.
  - c. Has the approval of its Board for the Outsourcing arrangement in accordance with the Authority's guidelines.
  - d. The fees paid to the service provider do not form part of NAV Calculations.

The above confirmation of the insurer to the Authority shall be signed by the Principal Officer of the insurer.

- 5. Any agreement entered into with a Service Provider outsourcing the above-said services shall be filed with the Authority.
- 6. The outsourcing arrangement in no way takes away the obligations, accountability and responsibilities of the insurer to its policyholders and the Regulator in terms of the Law in force.
- 7. It is reiterated that activities other than Custodial services and calculation of NAV under ULIP, shall not be outsourced and the provisions contained in Circular INV/CIR/031/2004-05 dated July 27, 2004 shall be followed.

The above Circular may be indexed as INV/CIR/020/2008-09 in supersession of earlier Circular INV/CIR/031/2004-05 and INV/CIR/058/2004-05

## **G. STATEMENT OF INVESTMENT RECONCILIATION**

In order to establish the reconciliation between the Purchase and Sale of Investments made during the Quarter and link the same, [fund wise in the case of Life Insurers and Total Investments in the case of General Insurer] with FORM-3A (Part A)/FORM-3B filed for each Quarter, all Insurers are required to file FORM 5 and FORM 5A, listing the various investments made based on Category of Investments as per Annexure -1.

### **A. SUBMISSION DETAILS**

The Reconciliation Statement on Purchase and Sale of Investments, as per FORM-5 and FORM-5A, shall be filed within 45 days from the end of the Quarter. In relation to the Quarter ending on the Balance Sheet date, the return shall first be filed based on 'Provisional figures' and shall subsequently be re-filed with Audited figures, in addition to other Returns. On each return, the Insurer shall clearly mark 'Provisional' if submitted based on provisional figures. The final returns shall be clearly marked as 'Final'.

### **B. METHOD OF PREPARATION**

The statement shall be prepared as per categories mentioned under Regulation 3 and 4 of IRDA (Investment) Regulations, 2000 as applicable to Life Insurers, General Insurers namely:

1. Government Securities
2. State Government and Other Approved Securities
3. Housing and Loans to State Government for Housing and Fire Fighting Equipments
4. Infrastructure Investments
5. Approved Investments
6. Other Investments

**Note:** For all securities, falling under the above heads, the respective Category Code shall be as provided in Annexure -1 of this Guideline on "Category of Investments".

### **C. CATEGORY LISTING METHOD**

The Opening Balance of each sub-category under each of the following category, namely:

1. Government Securities
2. State Government and Other Approved Securities

3. Housing and Loans to State Government for Housing and Fire Fighting Equipments
4. Infrastructure Investments
5. Approved Investments
6. Other Investments

Shall be the consolidated entry, shown at the Carrying cost of that particular sub-category or at the Actual Cost of Purchases after amortization. In respect of Equity investment, the opening balance shall be shown at weighted average cost of acquisition under respective category of investments.

In respect of Mutual Fund Investments, the Opening Balance shall be calculated as a product of the number of units held and the weighted average value of NAV of all purchase made up to that period for each of the Mutual Fund.

#### **D. PURCHASES FOR THE QUARTER**

All purchases made during the period shall be shown at the consolidated Weighted Average Value, category code wise (as provided in Guidelines on Category of Investments), and be listed in the same sequence as provided in the "Category of Investments". The Face Value shall be the consolidated Value of each security purchased during the Quarter.

#### **E. COST OF SALES**

In case of equity, cost of sales shall be the Weighted Average Cost of the investment and in case of debt securities the cost of sales shall be the amortised cost of investment at the time of sale.

#### **F. CLOSING BALANCE**

In Closing Balance column, the book value shall be the sum of Weighted Average Cost of Opening Balance and Purchases made during the period as reduced by the Cost of Sales for that period plus adjustments if any, which shall be listed sub-category wise. The closing balance, thus arrived at each sub-category level should be grossed at each category level. This shall be the investment that will be carried forward to the next period.

The Market Value of each sub-category of Category of Investments shall be determined as per Annexure – 2 "Guidelines on Market value for the purpose of FORM 3A/FORM 3B".

**Note:**

1. If there is no entry for a particular sub-category of Investments, an empty row should be shown, clearly mentioning the Category of Investment and Category Code.
2. In the case of Unit Linked Funds, the valuation shall be as per IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002
3. Circular No. 32/2/F&A/Circulars/169/Jan/2006-07 Dt. January 24, 2007 on "Prudential norms for Income Recognition, Asset Classification and Provisioning and Other related matters" should strictly be complied.
4. Refer Annexure – 1 of this Guidelines for "Category of Investments for Life, Linked and General Insurance Business".
5. Refer Annexure – 2 of this Guidelines for "Market Value – Basis for Form-3A, Form-3B".

The above Guidelines may be indexed as INV/GLN/004/2008-09 in supersession of earlier Guidelines INV/GLN/005/2003-04, Guideline INV/GLN/001/2003-04 and Guideline INV/GLN/003/2003-04

## CATEGORY OF INVESTMENTS FOR LIFE, LINKED, GENERAL INSURANCE BUSINESS

The Authority vide Notification F. No. IRDA/Reg./5/47/2008 dated July 30, 2008 published the 4th Amendment of Investment Regulations on August 22, 2008. With a view of reflecting the specific changes brought about in respect of Insurers investment in various Categories, had issued Guidelines: INV/GLN/001/2003-04 dated January 1, 2004, the same had been amended suitably as under. These are the Category of Investments that are permissible for Life, Pension and General Annuity, Linked Insurance Business and General Insurance (including Re Insurance) Business. These are the exhaustive categories as per the Insurance Regulatory and Development Authority.

No.	INVESTMENT CATEGORY HEADS	CAT CODE
<b>A</b>	<b>GOVERNMENT SECURITIES</b>	
A01	Central Government Bonds	CGSB
A02	Special Deposits	CSPD
A03	Deposit under Section 7 of Insurance Act, 1938	CDSS
A04	Treasury Bills	CTRB
<b>B</b>	<b>GOVERNMENT SECURITIES/OTHER APPROVED SECURITIES</b>	
B01	Central Government Guaranteed Loans/Bonds	CGSL
B02	State Government Bonds	SGGB
B03	State Government Guaranteed Loans	SGGL
B04	Other Approved Securities (excluding Infrastructure Investments)	SGOA
B05	Guaranteed Equity	SGGE
<b>C</b>	<b>HOUSING &amp; LOANS TO STATE GOVT. FOR HOUSING AND FIRE FIGHTING EQUIPMENT</b>	
C01	Loans to State Government for Housing	HLSH
C02	Loans to State Government for Fire Fighting Equipments	HLSF
C03	Term Loan – HUDCO/NHB/Institutions accredited by NHB	HTLH
C04	Commercial Papers – NHB/Institutions accredited by NHB	HTLN

<b>No.</b>	<b>INVESTMENT CATEGORY HEADS</b>	<b>CAT CODE</b>
C05	Housing – Securitised Assets	HMBS
C06	Debentures/Bonds/CPs/Loans – (Promoter Group)	HDPG
	<b>TAXABLE BONDS</b>	
C06	Bonds/Debentures issued by HUDCO	HTHD
C07	Bonds/Debentures issued by NHB/Institutions accredited by NHB	HTDN
C08	Bonds/Debentures issued by Authority constituted under any Housing/Building Scheme approved by Central/State/ any Authority or Body constituted by Central/State Act	HTDA
	<b>TAX FREE BONDS</b>	
C09	Bonds/Debentures issued by HUDCO	HFHD
C10	Bonds/Debentures issued by NHB/Institutions accredited by NHB	HFDN
C11	Bonds/Debentures issued by Authority constituted under any Housing/Building Scheme approved by Central/State/ any Authority or Body constituted by Central/State Act	HFDA
<b>D</b>	<b>INFRASTRUCTURE INVESTMENTS</b>	
D01	Infrastructure – Other Approved Securities	ISAS
D02	Infrastructure – PSU – Equity shares – Quoted	ITPE
D03	Infrastructure – Corporate Securities – Equity shares– Quoted	ITCE
D04	Infrastructure – Equity and Equity Related Instruments (Promoter Group)	IEPG
D05	Infrastructure – Securitised Assets	IESA
D06	Infrastructure – Debentures/Bonds/CPs/loans – (Promoter Group)	IDPG
	<b>TAXABLE BONDS</b>	
D07	Infrastructure – PSU – Debentures/Bonds	IPTD
D08	Infrastructure – PSU – CPs	IPCP
D09	Infrastructure – Other Corporate Securities – Debentures/ Bonds	ICTD

<b>No.</b>	<b>INVESTMENT CATEGORY HEADS</b>	<b>CAT CODE</b>
D10	Infrastructure – Other Corporate Securities – CPs	ICCP
D11	Infrastructure – Term Loans (with Charge)	ILWC
	TAX FREE BONDS	
D12	Infrastructure – PSU – Debentures/Bonds	IPFD
D13	Infrastructure – Other Corporate Securities – Debentures/Bonds	ICFD
<b>E</b>	<b>APPROVED INVESTMENT SUBJECT TO EXPOSURE NORMS</b>	
E01	PSU – Equity shares – Quoted	EAEQ
E02	Corporate Securities – Equity shares (Ordinary)– Quoted	EACE
E03	Equity Shares – Companies incorporated outside India (invested prior to IRDA Regulations)	EFES
E04	Equity Shares (incl. Equity related Instruments) – Promoter Group	EEPG
E05	Corporate Securities – Bonds – (Taxable)	EPBT
E06	Corporate Securities – Bonds – (Tax Free)	EPBF
E07	Corporate Securities – Preference Shares	EPNQ
E08	Corporate Securities – Investment in Subsidiaries	ECIS
E09	Corporate Securities – Debentures	ECOS
E10	Corporate Securities – Debentures/ Bonds/ CPs/ Loan – (Promoter Group)	EDPG
E11	Corporate Securities – Derivative Instruments	ECDI
E12	Investment properties – Immovable	EINP
E13	Loans – Policy Loans	ELPL
E14	Loans – Secured Loans – Mortgage of Property in India (Term Loan)	ELMI
E15	Loans – Secured Loans – Mortgage of Property outside India (Term Loan)	ELMO
E16	Deposits – Deposit with Scheduled Banks, FIs (incl. Bank Balance awaiting Investment), CCIL, RBI	ECDB
E17	Deposits – CDs with Scheduled Banks	EDCD

<b>No.</b>	<b>INVESTMENT CATEGORY HEADS</b>	<b>CAT CODE</b>
E18	Deposits – Repo/Reverse Repo	ECMR
E19	Deposit with Primary Dealers duly recognised by Reserve Bank of India	EDPD
E20	CCIL – CBLO	ECBO
E21	Commercial Papers	ECCP
E22	Application Money	ECAM
E23	Perpetual Debt Instruments of Tier I & II Capital issued by PSU Banks	EUPD
E24	Perpetual Debt Instruments of Tier I & II Capital issued by Non-PSU Banks	EPPD
E25	Perpetual Non-Cum. P.Shares & Redeemable Cumulative P.Shares of Tier 1 & 2 Capital issued by PSU Banks	EUPS
E26	Perpetual Non-Cum. P.Shares & Redeemable Cumulative P.Shares of Tier 1 & 2 Capital issued by Non-PSU Banks	EPPS
E27	Foreign Debt Securities (invested prior to IRDA Regulations)	EFDS
E28	Mutual Funds – Gilt/G Sec/Liquid Schemes	EGMF
E29	Mutual Funds – (under Insurer's Promoter Group)	EMPG
E30	Net Current Assets (Only in respect of ULIP Business)	ENCA
<b>F</b>	<b>OTHER INVESTMENTS</b>	
F01	Bonds – PSU – Taxable	OBPT
F02	Bonds – PSU – Tax Free	OBPF
F03	Equity Shares (incl Co-op Societies)	OESH
F04	Equity Shares (PSUs & Unlisted)	OEPU
F05	Equity Shares (incl. Equity related Instruments) – Promoter Group	OEPG
F06	Debentures	OLDB
F07	Debentures/ Bonds/ CPs/ Loans etc. – (Promoter Group)	ODPG
F08	Commercial Papers	OACP
F09	Preference Shares	OPSH

No.	INVESTMENT CATEGORY HEADS	CAT CODE
F10	Venture Fund	OVNF
F11	Short-term Loans (Unsecured Deposits)	OSLU
F12	Term Loans (without Charge)	OTLW
F13	Mutual Funds – Debt/Income/Serial Plans/Liquid Secemes	OMGS
F14	Mutual Funds – (under Insurer's Promoter Group)	OMPG
F15	Derivative Instruments	OCDI
F16	Securitised Assets	OPSA
F17	Investment properties – Immovable	OIPI

**Note:** F. 'Other Investments' shall not be applicable to Pension and General Annuity Funds of Life Insurers.

### MARKET VALUE – BASIS FOR FORM-3A/FORM-3B

The Authority vide Notification F. No. IRDA/Reg./5/47/2008 dated July 30, 2008 published the 4th Amendment of Investment Regulations on August 22, 2008. With a view of reflecting the specific changes brought about in respect of Market Value of Investments for the purpose of FORM 3A, FORM 3B, the Authority issued Guidelines INV/GLN/003/2003-04 dated January 1, 2004 and the same has been amended suitably as under. The following shall, without prejudice to Sections 27A, 27B of the Insurance Act, 1938 be the basis for arriving at the “Market Value” of Investment to be furnished in FORM-3A and FORM-3B.

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
<b>A</b>	<b>GOVERNMENT SECURITIES</b>		
A01	Central Government Bonds	CGSB	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
A02	Special Deposits	CSPD	At Cost
A03	Deposit under Section 7 of Insurance Act, 1938	CDSS	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
A04	Treasury Bills	CTRB	Valued as per FIMMDA.
<b>B</b>	<b>GOVERNMENT SECURITIES/ OTHER APPROVED SECURITIES</b>		
B01	Central Government Guaranteed Loans/Bonds	CGSL	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
B02	State Government Bonds	SGGB	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
B03	State Government Guaranteed Loans	SGGL	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
B04	Other Approved Securities (excluding Infrastructure Investments)	SGOA	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
B05	Guaranteed Equity	SGGE	Book Value.
<b>C</b>	<b>HOUSING &amp; LOANS TO STATE GOVT. FOR HOUSING AND FIRE FIGHTING EQUIPMENT</b>		
C01	Loans to State Government for Housing	HLSH	At Cost Less Provisions.
C02	Loans to State Government for Fire Fighting Equipments	HLSF	At Cost Less Provisions.
C03	Term Loan – HUDCO/ NHB/ Institutions accredited by NHB	HTLH	At Cost Less Provisions.
C04	Commercial Papers – NHB/ Institutions accredited by NHB	HTLN	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
C05	Housing – Securitised Assets	HMBS	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
C06	Bonds/ Debentures/ CPs/ Loans – Promoter Group	HDPG	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
	<b>TAXABLE BONDS OF</b>		
C07	Bonds/Debentures issued by HUDCO	HTHD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
C08	Bonds/Debentures issued by NHB/ Institution accredited by NHB	HTDN	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
C09	Bonds/Debentures issued by Authority constituted under any Housing/Building Scheme approved by Central/State/any Authority or Body constituted by Central/State Act	HTDA	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
	<b>TAX FREE BONDS</b>		
C10	Bonds/Debentures issued by HUDCO	HFHD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
C11	Bonds/Debentures issued by NHB/ Institution accredited by NHB	HFDN	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
C12	Bonds/Debentures issued by Authority constituted under any Housing/Building Scheme approved by Central/State/any Authority or Body constituted by Central/State Act	HFDA	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
<b>D</b>	<b>INFRASTRUCTURE INVESTMENTS</b>		
D01	Infrastructure – Other Approved Securities	ISAS	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
D02	Infrastructure – PSU – Equity shares – Quoted	ITPE	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.)

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
D03	Infrastructure – Corporate Securities – Equity shares–Quoted	ITCE	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). If unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).
D04	Infrastructure – Equity and Equity Related Instruments (Promoter Group)	IEPG	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). If unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).
D05	Infrastructure – Securitised Assets	IESA	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
D06	Infrastructure – Debentures/ Bonds/ CPs/ loans – Promoter Group	IDPG	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency and in case of loans at cost.
	<b>TAXABLE BONDS OF</b>		
D07	Infrastructure – PSU – Debentures/ Bonds	IPTD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
D08	Infrastructure – PSU – CPs	IPCP	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
D09	Infrastructure – Other Corporate Securities – Debentures/ Bonds	ICTD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
D10	Infrastructure – Other Corporate Securities – CPs	ICCP	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
D11	Infrastructure – Term Loans (with Charge)	ILWC	At Cost less opening Provisions.
	<b>TAX FREE BONDS</b>		
D12	Infrastructure – PSU – Debentures/ Bonds	IPFD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
D13	Infrastructure – Other Corporate Securities – Debentures/ Bonds	ICFD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
<b>E</b>	<b>APPROVED INVESTMENT SUBJECT TO EXPOSURE NORMS</b>		
E01	PSU – Equity shares – quoted	EAEQ	Market Value
E02	Corporate Securities – Equity shares (Ordinary)–quoted	EACE	Market Value
E03	Equity Share – Companies incorporated outside India (invested prior to IRDA Regulations)	EFES	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
E04	Equity Shares (incl. Equity related Instruments) – Promoter Group	EEPG	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).
E05	Corporate Securities – Bonds – (Taxable)	EPBT	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
E06	Corporate Securities – Bonds – (Tax Free)	EPBF	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
E07	Corporate Securities – Preference Shares	EPNQ	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).
E08	Corporate Securities – Investment in Subsidiaries	ECIS	At Cost less Provision for diminution.
E09	Corporate Securities – Debentures	ECOS	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
E10	Corporate Securities – Debentures/ Bonds/ CPs / Loan – Promoter Group	EDPG	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency and in case of loans at cost.

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
E11	Corporate Securities – Derivative Instruments	ECDI	Marked to Market.
E12	Investment properties – Immovable	EINP	At Cost.
E13	Loans – Policy Loans	ELPL	At Cost.
E14	Loans – Secured Loans – Mortgage of Property in India (Term Loan)	ELMI	At Cost Less Provisions.
E15	Loans – Secured Loans – Mortgage of Property outside India (Term Loan)	ELMO	At Cost Less Provisions.
E16	Deposits – Deposit with Scheduled Banks, FIs (incl. Bank Balance awaiting Investment), CCIL, RBI	ECDB	At Carrying Cost.
E17	Deposits – CDs with Scheduled Banks	EDCD	At Carrying Cost.
E18	Deposits – Repo/Reverse Repo	ECMR	At Cost.
E19	Deposit with Primary Dealers duly recognised by Reserve Bank of India	EDPD	At Cost.
E20	CCIL – CBLO	ECBO	At Carrying Cost.
E21	Commercial Papers	ECCP	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
E22	Application Money	ECAM	At Cost.
E23	Perpetual Debt Instruments of Tier I & II Capital issued by PSU Banks	EUPD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
E24	Perpetual Debt Instruments of Tier I & II Capital issued by Non-PSU Banks	EPPD	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
E25	Perpetual Non-Cum. P.Shares & Redeemable Cumulative P.Shares of Tier 1 & 2 Capital issued by PSU Banks	EUPS	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
E26	Perpetual Non–Cum. P.Shares & Redeemable Cumulative P.Shares of Tier 1 & 2 Capital issued by Non–PSU Banks	EPPS	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
E27	Foreign Debt Securities (invested prior to IRDA Regulations)	EFDS	At Carrying Cost.
E28	Mutual Funds – Gilt/G Sec/Liquid Schemes	EGMF	At NAV as on the reporting date.
E29	Mutual Funds – (under Insurer's Promoter Group)	EMPG	At NAV as on the reporting date.
E30	Net Current Assets (Only in respect of ULIP Business)	ENCA	At book value.
<b>F</b>	<b>OTHER INVESTMENTS</b>		
F01	Bonds - PSU - Taxable	OBPT	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
F02	Bonds - PSU - Tax Free	OBPF	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
F03	Equity Shares (incl Co-op Societies)	OESH	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
F04	Equity Shares (PSUs & Unlisted)	OEPU	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).
F05	Equity Shares (incl. Equity related Instruments) – Promoter Group	OEPG	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).
F06	Debentures	OLDB	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.
F07	Debentures/ Bonds/ CPs/ Loans etc. – Promoter Group	ODPG	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency and in case of loans at cost.
F08	Commercial Papers	OACP	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency.

S. NO.	PARTICULARS	CAT CODE	MARKET VALUE – BASIS FOR FORM-3A, FORM-3B
F09	Preference Shares	OPSH	If quoted, valued at Market Value (last Quoted price should not be later than 30 days). In unquoted, Book Value Less Provisions (Provisions shall be made at the end of the Year. For the purpose of Quarterly Returns, if there exist any Provision for any Equity Share at the beginning of the year, the same shall be reduced from the Book Value.).
F10	Venture Fund	OVNF	At NAV (if available) or at cost less Provision for diminution.
F11	Short-term Loans (Unsecured Deposits)	OSLU	At Cost Less Provisions.
F12	Term Loans (without Charge)	OTLW	At Cost Less Provisions.
F13	Mutual Funds – Debt/ Income/ Serial Plans	OMGS	At NAV as on the reporting date.
F14	Mutual Funds (under Insurer's Promoter Group)	OMPG	At NAV as on the reporting date.
F15	Derivative Instruments	OCDI	Marked to Market.
F16	Securitised Assets	OPSA	Value as per FIMMDA if rated. If not, valued at applicable Market Yield rates published as per reputed Rating Agency. If NAV is available, at applicable NAV.
F17	Investment properties – Immovable	OIPI	At Cost.

## APPENDIX 'D'

### Requirements at the R1/R2 Stage of Registration of Insurance Companies

#### 1. Consideration of requisition for registration application:<sup>1</sup>

The Authority on being satisfied that –

- (a) The requisition in Form IRDA/R1 is complete in all respects and is accompanied by all documents required therein;
- (b) All information given in the Form IRDA/R1 is correct;
- (c) **The applicant will carry on all functions in respect of the insurance business including management of investments within its own organization;**
- (d) The applicant submitting requisition for registration application –
  - i) Is a *bona fide* applicant for registration under section 3 of the Act;
  - ii) Will be in a position to comply with the requirements for grant of certificate;

May accept the requisition and direct supply of the application for registration to the applicant.

#### 2. The following point is to be taken into consideration while applying for R1 Registration procedure<sup>2</sup>:

##### Investments:

Each company will have established its investment philosophy that will be appropriate for the products it intends to market. This should be described. Other information should include the investment personnel, investment adviser (if outsourced), location of the investment operations, investment brokers to be used, etc. Regulations regarding Investment, Valuation, Exposure – Prudential – Provisioning Norms – Life & Non Life issued by the Authority may be taken into account.

#### 3. The following point is to be taken into consideration while applying for R2 Registration procedure

##### Information Technology:

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1 Based on Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulation, 2000

2 As per the requirements of Circular No. INV/CIR/008/2008-09, Dated 22nd Aug., 2008

Insurance industry is very much dependent on computer technology. Full description should be provided for the following:

- The different areas where computer systems will be employed.
- Whether the systems will be bought off the shelf (with some customization), developed locally or imported into India by the foreign promoter (with some customization).
- The degree to which the systems will be used for policyholder servicing;
- **The degree of inter-connectivity of the systems.**
- **A description of how the I/T systems will be used to develop the required Management Information Systems.**
- Extent of procedures and operations which will remain manual.

[illegible]

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