

CIRCULAR

To
The CEOs of all Insurance Companies/Reinsurance Company,
Third Party Administrators,
Broking Companies

Dear Sir,

Re.: Regulatory framework on (i) issue of shares in any form other than equity and (ii) transfer of shares

(i) Issue of shares in forms other than equity

We invite your attention to the provisions of Section 6A of the Insurance Act, 1938 which lays down the requirements as to the capital structure of insurance companies. The Section provides that no public company limited by shares shall carry on life insurance business unless its paid up capital consists of only ordinary shares each of which has a single face value. Sub-section (11) further provides that the said section shall also apply to insurers carrying on general insurance business.

Queries have been received from some insurers, intermediaries seeking clarification as to whether they could issue preference shares or certain other forms of hybrid instruments for augmentation of capital.

The Authority, after due examination, has decided that that no insurance company shall issue any form of shares or hybrid instruments other than equity. The approach is consistent with the stipulation of Authority at the time of registration of companies that additional requirements of capital would be funded through injection of equity capital at periodic intervals.

(ii) Transfer of shares

As you are aware, sub-section (4) of Section 6A further provides that no insurer shall register transfer of its shares where, after the transfer, the total paid up holding of the transferee in the shares of the company is likely to exceed five per cent of its paid-up capital or where the transferee is a banking or an investment company, is likely to exceed two and a half per cent of such paid-up capital, unless the previous approval of the Authority has been obtained to the transfer.

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Since the intent of the legislation is that any change in the structure of shareholding pattern of an insurance company should have the explicit approval of the Authority, it is clarified that such transfer shall also **include renunciation** of the rights by the existing shareholders. In other words, all transfers of shares in excess of the stipulated threshold and limits which result in change of either the pattern of the capital structure approved at the time of registration or the percentage approved by the Authority, would require prior approval of the Authority.

Insurers are advised that non-compliance with the requirement would be viewed seriously.

(iii) Applicability to other intermediaries

The above stipulations are applicable *mutatis mutandis* to all intermediaries who have been granted registration as Third Party Administrators (TPAs) and Broking Companies.

In case any intermediary has issued capital in any form other than equity, or has raised funds through any hybrid instrument, immediate steps should be taken to redeem such instruments under a time bound programme, has the prior approval of the Authority.

Please acknowledge receipt.

Yours faithfully,

(C. R. Muralidharan)