

CIRCULAR

ALL INSURERS

No. IRDA/CIR/INV/062/JAN/05

17th January, 2005

Re.: Transactions on stock markets to be on cash basis

The insurers have approached the Authority to request the Securities & Exchange Board of India to extend the facility of waiver of the condition of deposit of margin money for transactions executed by them on the stock market. The exemption has been sought on the lines of similar exemption given to financial institutions covered under Section 4A of the Companies Act, 1956.

The Authority had sought confirmation from insurers as to whether adequate safeguards in the form of checks and controls had been built into the investment procedures approved by the respective Boards to ensure that all investment transactions carried out by them are only on delivery basis. The insurers were also advised to furnish particulars of the safeguards built in to ensure compliance of this directive at executive levels. The insurers have confirmed that they adopt delivery based business in their cash market transactions.

While, insurance companies by the very nature of the business carried out by them are prohibited from dealing on the stock exchanges on a speculative basis, and insurers are required to ensure that there are adequate checks and balances to guard against such transactions, **the Authority hereby stipulates that all transactions entered into by insurers on the stock markets shall result in delivery. All insurers are required to place the contents of this Circular before their respective Boards and Investment Committees, and a copy of the duly certified resolution confirming the directive of the Authority is required to be filed with the Authority.**

Further, all insurers are required to file a certificate of compliance to this effect on a quarterly basis. The Certificate is required to form part of Form 5 of the Return on "Statement of Investment Reconciliation" filed by the insurers under the IRDA (Investment) Regulations, 2000. The Certificate of Compliance to be filed with the said Return now stands modified and shall henceforth read as under:

"Certified that all cash market transactions executed on the stock exchanges are only on delivery basis.

Further certified that all information given herein is correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed."

All insurers are required to ensure compliance of the above directive.

(C. S. Rao)
Chariman