

MINUTES OF THE 57th MEETING OF THE AUTHORITY

held on February 6, 2009 at 11.30 a.m.
in the Office of the IRDA at 3rd Floor, Parishram Bhavan, Basheer Bagh,
Hyderabad.

Present:	Chairman	Shri J Hari Narayan
	Member	Shri C. R. Muralidharan
	Member	Shri K K Srinivasan
	Member	Shri G Prabhakara
	Part-time Member	Shri Vijay Mahajan
	Part-time Member	Shri Uttam Prakash Agarwal
	Invitee	Dr. D V S Sastry
Also present:	Executive Director	Shri Prabodh Chander
	Executive Director	Shri K Subrahmanyam
	Executive Director	Shri Kunnel Prem

Chairman extended a warm welcome to all those who were present. The services of Shri Ved Jain, President, ICAI were appreciated and placed on record.

Leave of absence was granted Dr. R Kannan, Member, IRDA Smt. Ela R Bhatt, SEWA and Ms. Sushma Nath, Secretary (Expenditure), Ministry of Finance who could not attend because of prior commitments.

Item # 1: Confirmation of Minutes of the 56th Meeting of the Authority held on October 27, 2008.

The meeting then took up for consideration the Confirmation of Minutes of the 56th Meeting of the Authority. In view of the remarks made by Member (NL), it was suggested that the words in penultimate para starting with "*Member (Non-Life) pointed out that while R2 was acceptable*" should be deleted and the para should start with "*The proposed name of*".

It was decided to take note of the corrections and confirm the minutes.

Resolution No: 57:1

Authority resolves to confirm the Minutes of the 56th meeting of the Authority held on 27th October, 2008 with corrections as indicated above.

Item # 2: Action Taken Report on the Minutes of the 56th Meeting of the Authority held on October 27, 2008.

The Authority took note of the Action Taken Report. Member (F&I) requested that the Investment policy mentioned in page 2.4 in respect of IRDA Fund needs to be re-examined with regard to limits prescribed for NPA and CAR. This would be worked out separately and ED (Admn) shall put up the same in the next Authority Meeting.

Item # 3: Deputation of Dr. R K Sinha from RBI to IRDA as Officer on Special Duty (OSD) in the rank of Deputy Director (R&D)

Noted.

Item # 4: Deputation of Shri N Srinivasa Rao from Ministry of Agriculture to IRDA as Chief Accounts Officer in the rank of Deputy Director.

Noted.

Item # 5: Extension of period of engagement of Dr. D V S Sastry, Director General (R&D).

Noted.

Item # 6: Construction Of New Building-IRDA

Noted.

Item # 7: IRDA Agents' Licensing Portal

Noted.

Item # 8: Budget Estimates for the year 2009 - 10

The budget for the year 2009-10 was noted and approved by the Authority with the following observations:

- a) Revenue & Capital budgets be shown separately.
- b) Due provisions be made for the proposed Data Warehouse.

Resolution No: 57 : 8

IRDA resolves to approve the Budget for the year 2009-10.

Item # 9: Any other item with the permission of Chair.

Additional Agenda Item # 1: R1 Application of Indiabulls Life Insurance Company Limited

The R1 application of Indiabulls Life Insurance Company Limited was taken up for consideration as proposed by Member (F&I). The company would be promoted by Indiabulls Financial Services Limited (IBFSL) and Indiabulls Securities Limited (IBSL) who will hold 49.5% and 24.5% stake respectively in the Joint Venture, and Sogecap, France which will hold 26% as the foreign promoter. The company proposed to commence operations with an initial paid-up capital of Rs 300 crores of which Rs 202.70 crs would be towards equity capital and the balance Rs 97.3 crs by way of share premium received from the foreign JV partner. At the outset, M(F&I) observed that IBFSL was primarily engaged in financial operations including a large loan book. The company was non deposit taking NBFC. But in view of its significant operations and size RBI was monitoring it as under NBFC Regulations but also as a Systemically Important Financial Institution (SIFI). Hence it was necessary to bestow due care before its registration.

The R1 application, prima facie, was complete as regards the specified regulatory requirements and the shareholders agreement provided for a lock-in period of 8 years.

Due Diligence of the Promoters

The due diligence of both the domestic and foreign promoters to decide on their 'fit and proper' criteria was carried out by the Authority by writing to RBI and SEBI since Indiabulls Financial Services Limited, an NBFC, and Indiabulls Securities Limited, a broking company was regulated by the banking and capital market regulator respectively. While the RBI vide their letter dated 20th November, 2007 advised the Authority that there were no serious concerns in respect of Indiabulls Financial Services Limited, SEBI vide their letter 13th October, 2008 gave details of number of actions that were taken against Indiabulls Securities Limited. These include some serious actions including cease and desist order, administrative warnings, adjudication proceedings and enquiries. The French Securities Market Regulator had confirmed that the company is financial strong, solvent and it has no objections to Sogecap's participation in Indiabulls life Insurance Company Limited.

On the financial strength of the promoters it was observed that the income from operations of Indiabulls Financial Services Limited increased significantly during the financial year 2007-08 as compared to 2006-07 and 2005-06. The unaudited figures for the 9 months ending 31st December, 2008 when compared to the same period for 31st December, 2007 showed a 75% increase in income from operations which was not in alignment with the general trends in

the financial market. The pace of growth which is significant is also not in line with the industry in last quarter and therefore required greater examination. Like-wise examination of financials of Indiabulls Securities Limited reflects the concerns on the ability of the company to raise the necessary resources to fund the venture on long-term basis particularly the capital requirements under pessimistic scenario. It appears that the Indian promoter companies may not be in a position to meet the requirements of the capital to sustain the venture on a long term basis.

Before further discussions on the other aspects on the application could be taken up, the Members discussed the various aspects of the application in detail. All the members voiced several serious concerns emanating from the regulators' reports. These are briefly as under:-

- the actions taken by SEBI against Indiabulls Securities Limited were quite frequent and were of various degrees of seriousness. In particular, the Cease and Desist order of SEBI in 2007 was a very serious action on an entity aspiring to enter an insurance venture were serious and the company cannot be said to pass the "fit and proper" criteria.
- the observations of SEBI that despite the various actions no regulatory order against Indiabulls Securities Limited, as a listed company, has been taken by the Board till date. appeared contradictory. This will have to be again taken up with SEBI.
- there was need to undertake greater due diligence of the Indiabulls Financial Services Limited especially since the letter received from RBI was more than one and a half year old.

Financial analysis

The following suggestions were made to decide on the ability of the promoters to satisfy their capacity to meet the future capital needs of the company as the financial position of the promoter companies do not inspire adequate confidence

- (a) the Authority should insist on the audited accounts and note to accounts of Indiabulls Financial Services Limited and Indiabulls Securities Limited for the last three years to undertake very detailed financial due diligence on part of the Indian promoters and ICAI would assist in this regard
- (b) income tax returns of the promoter companies to assess the financial strength of the companies and to verify the position of their contingent tax liabilities.
- (c) Certification of net worth, sources of funds for raising capital should be insisted

Business aspects

The following observations were made in this regard:

(i) the approach for complying with the rural and social sector obligations gave the impression that the company would be adopting a tied sales system wherein customers would be forced to buy a life insurance policy when taking personal or home loans from the promoter companies.

(ii) the operational process proposed to be adopted by the company were improper since for rural customers all rural applications would be routed through the hub locations of IBFSL and prima facie do not seem compliant with the Regulations.

Chairman observed that the overall discussion pointed to the need for further action before proceeding with R1 application. It was therefore decided that further action should be taken to meet the various observations/ suggestions of the Members of the Authority and that the consideration of R1 application be deferred till then.

Resolution No: 57 : 9 : 1

IRDA resolves to undertake further due diligence of the promoter companies/financial analysis of the companies on the lines suggested by the Members and take consideration of R1 application subsequently.

Additional Agenda Item No 2: Medical Scheme for Chairman & Whole-time Members of the Authority after retirement.

The proposal was approved by the Authority.

There was no other item for discussion and the meeting concluded with vote of thanks to the Chairman.

**(J Hari Narayan)
Chairman**