



MINUTES OF THE 59th MEETING OF THE AUTHORITY

held on July 8, 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 |
| | Member | Dr. R Kannan |
| | Part-time Member | Smt. Ela R Bhatt |
| | 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 |
| | Executive Director | Shri A Giridhar |

Chairman extended a warm welcome to all those who were present. Leave of absence was granted Shri Rahul Khullar, Secretary (Disinvestment), Ministry of Finance.

Item # 1: Confirmation of Minutes of the 58th Meeting of the Authority held on April 29, 2009

Authority approved the minutes of its 58th meeting held on April 29, 2009 subject to certain changes that wherever ACA/FCA is mentioned any other suitable qualifications as decided by the Chairman may be added.

Resolution No: 59:1

Authority resolves to confirm the Minutes of the 58th meeting of the Authority held on 29th April, 2009 subject to changes indicated above.

Item # 2: Action Taken Report on the Minutes of the 58th Meeting of the Authority held on April 29, 2009.

As regards action taken point No. 4B, Chairman informed that this is a very important task and Non-Life department may complete it quickly, necessarily before the next Board Meeting.

Item # 3: Scheme of deputing officers of the Authority for higher studies abroad

The Authority approved the Scheme of deputing Officers of the Authority for higher studies abroad except for the following changes:

- a) Point no. (iv) of Para (VI) - “.....an agreement undertaking to serve the Authority for a minimum of **five** years after the completion of their study abroad or pay liquidated damages for their failure to do so. Officer pursuing a course, the duration of which exceeds one year, will be required to execute an agreement, undertaking to serve the Authority for a minimum period of **seven** years after the completion of their study abroad or pay liquidate damages”
- b) Point no. (ii) of Para II - The award shall be granted to a maximum number of **two** officers every year.
- c) Addition of point no. f) in para II - The award will be given to the Officer only **once** during his/her career at IRDA.
- d) Addition of point no. vi) in para VI regarding Non-completion of course opted by the Officer
- e) Funding from IRDA will be fully available where the duration of course is not exceeding 12 / 15 months.
- f) Expenses would be borne by IRDA as per actuals.
- g) The Authority would bear to and fro air fare (Economy Class)
- h) The selected officer has to take examination for each paper, selected by him/her and not merely take courses on audit.

Resolution No: 59:3

With the above changes the Board resolved to adapt the Scheme of deputing Officers of the Authority for higher studies abroad subject to changes indicated above.

Item # 4: R1 Application of Baroda L&G Life Insurance Company Ltd.

The R1 application of Baroda L&G Life Insurance Company Limited was taken up for consideration as proposed by Member (F&I). The company would be promoted by Bank of Baroda and Andhra Bank who will hold 44% and 30% stake respectively in the Joint Venture, and L&G plc, UK which will hold 26% as the foreign promoter. The company proposes to commence operations with an initial paid-up capital of Rs 330 crores of which Rs 200 crs would be towards equity capital and the balance Rs 130 crs by way of share premium received from the foreign JV partner and retained in the insurance venture.

It was noted that the shareholders agreement did not provide for a lock-in period of 5 years and it was decided that the promoters would be advised to provide for a 5 year lock-in clause along-with other requirements listed out in the Memorandum. The approach to be followed in meeting the rural and social sector requirements through the rural/ semi-urban branch network of the two banks and aligning with their existing approach for financial inclusion was detailed and comprehensive. The Indian promoters namely Bank of Baroda and Andhra bank have corporate agencies

will be terminated after the formation of the new venture. Both the banks have committed that they will continue to serve the existing policy holders who have taken insurance policies through them.

Due Diligence Report

The due diligence report on the track record, credibility, performance and strength of Bank of Baroda and Andhra Bank received from RBI and SEBI are satisfactory. Likewise the due diligence report received from FSA, UK on L&G Group plc, UK was also satisfactory. Therefore both the Indian and foreign promoters were accepted as fit & proper in the joint venture company.

Financial Analysis

The financial reports of the promoters indicated that the financial strengths of the three partners was sound and that the applicant company would be in a position to meet its capital commitments over the first five years of its operations. Both public sector banks had good financial fundamentals and had adequate capital adequacy to meet Basel II norms even after providing for their capital commitment to the insurance venture. Though L&G had some set-back in the current year, its overall financial strength was adequate to meet its commitment to the Indian venture.

Business aspects

It was noted that the applicant company's competitive advantage stems from the strength of the distribution reach of the two Indian promoter banks namely Bank of Baroda and Andhra Bank who have more than 4,200 branches across the country coupled with Legal & General's knowledge in life insurance business. The network of bank branches will enable it to reach out to the far flung insurance consumer in a cost-effective manner and increase insurance penetration. The company will market its products primarily through bancassurance and the business plan drawn up reflected that focus at the operational level.

The application met the requirements of:

- a) Regulatory stipulations indicated for R1 clearance.
- b) Due diligence of both the domestic and foreign promoters
- c) The business plan projections being in order and realistic.
- d) The financial ability of the domestic and foreign promoters to meet the entry capital and other ongoing capital requirements to meet IRDA's solvency requirements.

Resolution No: 59:4

The Authority approved the acceptance of R1 application subject to the conditions stipulated in the Memorandum.

Agenda Item # 5 : R1 Application of SBI General Insurance Company Limited

The R1 application of SBI General Insurance Company Limited was taken up for consideration as proposed by Member (F&I). The company would be promoted by State Bank of India who will hold 74% in the Joint Venture, and Insurance Australia Group, Australia which will hold 26% as the foreign promoter. The company proposed to commence operations with an initial paid-up capital of Rs 653 crores of which Rs 150 crs would be towards equity capital and the balance Rs 503 crs by way of share premium received from the foreign JV partner and retained in the company.

It was noted that SBI is largest domestic bank and also figures in the top list of global banks and IAG was also an established insurance group. The shareholders agreement provided for a lock-in period of 5 years amongst other things. The approach to be followed in meeting the rural and social sector requirements was detailed and comprehensive. The extensive branch network of SBI/ its associates is a strong feature to provide reach in far flung areas. The Indian promoter namely State Bank of India has corporate agency which will be terminated with the existing insurer for distributing the products of its own company. The bank has committed that they will continue to serve the existing policy holders who have taken insurance policies through them.

Due Diligence Report

The due diligence report on the track record, credibility, performance and strength of State Bank of India received from RBI and SEBI were satisfactory. Like-wise the due diligence report received from APRA and ASCI, Australia on the foreign partner viz. IAG was also satisfactory. Therefore both the Indian promoter and foreign promoter were accepted as fit & proper in the joint venture company.

Financial Analysis

The initial capital of Rs 653 crs (inclusive of share premium) was found adequate to meet the capital requirements for the first 4/5 years of operations. Even the existing companies with five or more years of operations like Bajaj Allianz General had a capital lower than that of the new company.

The financial statements of the promoters also indicate that their financial strength was sound and that the applicant company should be in the position to meet its capital commitments over the first five years of its operations without any difficulty. It was also clarified that while IAG had recorded losses in the current year, it had strengthened its equity through fresh Tier I capital and its solvency was at 1.65 as against 1.5 mandated by APRA. It also had clear plans to further improve its profitability.

Business aspects

It was noted that the applicant company's competitive advantage stems from the strength of the distribution reach of the State Bank of India and its associate/

subsidiaries banks who have more than 16,264 branches across the country coupled with Insurance Australia Group's knowledge in general insurance business. The network of bank branches will enable it to reach out to the far flung insurance consumer in a cost-effective manner and increase insurance penetration. The company will market its products primarily through bancassurance and the business plan drawn up reflected that focus at the operational level.

The application met the requirements of:

- a) The various regulatory stipulations to be fulfilled at R1 stage.
- b) Due diligence of both the domestic and foreign promoters
- c) Acceptance & realistic business plan requirements.
- d) The ability of the domestic and foreign promoter to meet the entry capital and other ongoing capital needs to meet the regulatory solvency requirements at all times.

The Authority approved the acceptance of R1 application subject to the conditions stipulated in the Memorandum.

Resolution No: 59:5

IRDA resolves to approve the R1 of SBI General Insurance Company Limited subject to the conditions indicated in the Memorandum.

Item # 6: Report on “Economic Capital and Market Consistent Embedded Value” for Life Insurance Industry in India

Member (Actuary) made a brief presentation on the report on Economic Capital and MCEV. The report was commissioned by Institute of Actuaries of India (IAI) with Dr. R Kannan as Chairman of the Committee. The report besides explaining the concept of Economic Capital and MCEV also provides various issues involved in its implementation in the Indian context. Report also recommends next steps to be taken by the industry for making the concept practically useful. The report also provides certain practical examples for calculation of non-market risks and the effect of diversification of portfolio.

Resolution No: 59:6

IRDA resolves to invite suggestions from the industry as well as from the experts on the contents of the report by placing it on IRDA website after obtaining necessary permission from IAI.

Item # 7: Report on “IFRS Compliance” in Indian Insurance Industry

Member (Actuary) presented the report of the Committee on IFRS Compliance which was constituted by IRDA. The committee has examined various provisions of IFRS which are significantly different from current Indian GAAP. Report also presents the analysis of international experience in converting to IFRS.

Committee felt that adoption of IFRS for investment measurements is likely to bring about volatility in the revenue account due to the principle based classification under IAS 39. The report also discussed the practical implications in implementation of IFRS during the initial stages, its applications to liability in life insurance and the disclosure requirements under IFRS.

Resolution No: 59:7

IRDA resolves to invite suggestion from the industry as well as from the experts by placing the report on the IRDA website.

Item # 8: Insurance Companies promoted by Banks

The issue of cross regulatory issues and ability of Banking companies to raise solvency capital as required by IRDA was taken up with the permission of Chair:

During the discussions on R1 applications of Baroda L&G Life Insurance Co. Ltd., and SBI General Insurance Co. Ltd., one Member, noted that after the liberalization of the insurance sector the number of insurance companies set up by public and private sector banks has become significant. The main motivator for the banks to enter the sector appeared to be their belief in leveraging their network of branches through the bancassurance model for distributing products. This would have enabled them to earn a good premium from the JV partners and also enhance their non fund based fee incomes. The linkage between banks and insurance had no doubt grown deeper with the bancassurance distribution model and has been a factor in enhancing a better reach to customers in areas earlier not accessed. But this also has other wide ranging implications for both banks and insurance sector, since there could be the possibility of risks of one sector spilling over to the other and thereby affecting the performance of both the sectors. This has also given rise to certain regulatory concerns of services rendered to policyholders in the background of short term distribution agreements.

Another regulatory issue is the sustained ability of the banks to raise capital for their insurance ventures in the light of the Basel II requirements to be met by the banks themselves. The IRDA had no doubt been looking at the ability of the banks to bring capital for insurance ventures by the bank partners concurrent with their own capital augmentation, at the time of approving every proposal. Nevertheless, the macro level picture on the ability of all banks planning to raise such capital warranted a deeper study.

Pertinently the international practice of a holding company structure that accommodates separate subsidiaries for banks, insurance and asset management companies was a model that probably has to be looked at in perspective along-with other regulatory implications. There were also implications of the competition between PSU Banks promoted insurance subsidiaries and PSU insurance companies both of which are owned by the Government.

The Member therefore suggested that it would be in order for the Authority to undertake an in-depth study of all issues associated with the bank promoted insurance companies in consultation with RBI and place before the Authority a detailed note in due course. The Chairman instructed that a Committee be constituted with RBI representation to look into various aspects of bank promoted insurance companies.

Resolution No: 59:8

IRDA resolves to constitute a Committee with RBI representation to look into various aspects of bank promoted insurance companies.

Item # 9: Prompt Corrective Action frame work for Indian Life Insurance Industry

Member (Actuary) made a brief presentation on the framework for prompt correction action frame work for Indian Life Insurance industry. In order to understand the performance life insurers and possible failure which may have the stabilizing effect on the entire industry, the Authority is contemplating to set up a reporting system which will gather information on the warning signals on various aspects of the business of each life insurer. Member explained the various ratios used for the analyzing the performance of the life insurers and their utility in grading the performance of the insurers into three zones namely – safe, transition and deteriorated. He also presented a tentative formula for calculation of EWP as a weighted average of various ratios and explained their possible numerical values in the Indian context. The Authority agreed on the necessity of such a framework to be set up immediately, in view of the volatility in both the stock market as well as the insurance industry.

Resolution No: 59:9

IRDA resolves to issue the prompt corrective action frame work as a circular and get the early warning parameters on a regular basis from the industry.

Item # 10: Any other Item with the permission of Chair

Mr. Mahajan suggested that an overview of the Industry may be provided on a six monthly basis in a templated fashion. He also requested that a report on inclusiveness of the insurance industry may be circulated for further discussion at the board level.

Chairman suggested that consumer related issues may be discussed once in every two board meetings. He also suggested that annual reports along with valuations of assets and liabilities of the insurers can be discussed soon after the annual reports are submitted by the insurers.

Chairman also suggested that future agenda of the Board may include a note on intermediaries, micro insurance and state sponsored insurance schemes.

Mr. Mahajan wanted to know the regulatory framework for safe guarding the policyholders' interest in the context of ULIP Funds and their investments by insurers. The Chairman requested Member (F&I) to make a detailed presentation on investment related regulations in the next Board meeting.

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

Sd/-
(J Hari Narayan)
Chairman