15th October, 2013

To
Joint Director (Investments)
Insurance Regulatory and Development Authority
3rd Floor, Parisrama Bhavan,
Basheer Bagh,
Hyderabad - 500 004
Andhra Pradesh

Sub: Representation for permitting all insurers to invest in ABS with underlying *other than* housing loan/ infrastructure loans

Respected Sir,

About the Indian Securitisation Foundation (ISF)

ISF is a not-for-profit entity representing the securitisation industry in India. The membership of the Foundation includes banks, NBFCs, microfinance institutions, other issuers and investors and securitisation professionals for promoting interest of securitisation and fixed income securities in India.

Typical investors in securitisation include public sector banks, private sector banks, mutual funds, insurance companies and others. The insurance companies find AAA rated fixed income security with higher spreads particularly attractive and world-over insurance companies are significant investors in securitisation transactions.

As ISF is dedicated to the cause of promoting securitisation in India, we humbly submit our representation herein below on permitting insurance companies to invest in all securitised instruments.

Our representation

Based on our understanding of the extant regulations with regard to investments by insurance companies, we humbly submit that currently investment in ABS with underlying assets being housing loans/ infrastructure assets ("***Permitted ABS***") has been permitted to insurers under the IRDA (Investment) (Fifth Amendment) Regulations, 2013. Investment in ABS with other underlying assets (Other ABS) is not expressly permitted.

While the intent of the lawmakers is well placed to allow insurance companies to invest in securitised instruments and other securities for promoting infrastructure and social sector, however the intent could not have been to keep investment in securitised paper limited to securities having underlying assets as housing loans/ infrastructure assets only. As investment in Permitted ABS provides for diversification of investment pool, the rationale for not permitting Other ABS is not understood.

Investment in Other ABS paper will not only provide diversification of investment pool it will provide flexibility of investment in a medium term to a long term paper. As a fixed income security, which is typically AAA rated and offering good returns, we would request you to permit all insurers to invest in Other ABS as well. Also from the securitisation market's perspective it will enable broad basing of investors and provide wider participation in the market. Further, keeping in line with the government's efforts to promote bond market in India, healthy market for fixed income securities has securitised debt instruments as an important component.

Below we list down few of the reasons incentivising insurers to invest in Other ABS:

- Senior ABS paper is usually AAA rated and hence, constitutes an ideal risk class for insurance companies. It provides an excellent diversification for insurance companies who have insurance sector risks – keeping credit risk to the minimum is therefore an understandable objective for an insurance company.
- While being a AAA paper, the yields on ABS paper are comparatively much better than normal corporate debt paper.
- Investment in ABS provides an excellent alternative investment for insurance companies and thereby broadens the current horizon for investments which is extremely narrow.
- ABS paper provides a broad spectrum of different tenures – from 12 months to 60 months maturity, and in case of housing finance/infrastructure sector, much longer term paper. Hence, insurers will get a very broad choice of investing.
- ABS issuers are banks/ financial institutions/ NBFCs all of whom are regulated under stringent regulations of the RBI. All the issurers have minimum capital requirements and therefore, the sector is subject to solvency supervision.
- Rating agencies have generally become very conservative in seeking credit enhancements for ABS transactions. Thereby the loss levels upto which pools of assets may suffer defaults are multiplied several times, and therefore, the enhancement levels are sufficient to absorb defaults upto highly stressed levels.

Based on the above rationale, we humbly submit that insurance companies be allowed to make investment in Other ABS as well.

Also with this representation, find enclosed **Annexure I** detailing the current state of the securitisation market, extant regulations applicable to securitisation transactions in India and the investment regulations applicable to insurance companies.

Should you need any further clarification, we would be glad to provide the same.

Thanking you,
Yours truly,
For ***Indian Securitisation Foundation***

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Nidhi Bothra

Annexure I

Securitisation market in India

Securitisation as a financial instrument has been prevalent in India since 1990s. The securitisation market started with innovative structures and was largely dominated by PTCs scaling new peaks in terms of volumes of issuances every year. Thereafter the Securitisation Guidelines issued in 2006 (2006 Guidelines[1]) was heavy on regulating the PTCs and the entire market shifted to bilateral assignments as the 2006 Guidelines were not applicable to bilateral assignments.

Securitisation market in India was never strong and has been affected more by internal issues than by external shocks. In the wake of the sub-prime crisis, the RBI took cues from the global regulators and felt the need for an overhaul of the securitisation regulations in India. A revised draft of the guidelines was placed on the website of the RBI in September 2011. Thereafter on 7th May, 2012, RBI issued the Revised Guidelines on Securitisation Transactions[2] (2012 Guidelines). The 2012 Guidelines lay down separate guidelines for Securitisation and Direct Assignments unlike international regulations that lay down single criteria for transfer of assets whether to SPV or any other real life entity. Post the 2012 Guidelines the market seemed to have shifted back to the PTCs route.

The recent most regulatory development has been the Finance Act, 2013 providing relief to certain class of investors in securitisation by introducing Chapter XII-EA in the Income Tax Act, 1961 with regard to special provisions relating to tax on income distributed by securitisation trusts.

In terms of volumes, the market composition of the structured finance products has been such that ABS has been dominating the market over years. The tabular presentation on the volumes of securitization in India is as below:

	FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
ABS	31,323	49%	13,581	25%	21,497	50%	20,920	68%	26,071	71%
RMBS	588	1%	3,291	6%	6,254	14%	5,029	16%	7,680	21%
Total Retail Securitisation	31,911	50%	16,872	31%	27,751	64%	25,948	84%	33,751	92%
LSO	31,819	50%	35,608	66%	14,581	34% %	4,341	14%	2,217	6%
Others	--	--	1,160	2%	787	2%	536	2%	635	2%
Overall total	36,730	100%	53,640	100%	43,118	100%	30,825	100%	36,603	100%
Growth	73%		(16%)		(20%)		(29%)		15%	

Source: Data collated from ICRA's estimates

In terms of volumes the market has securitised loans worth Rs. 36,603 crores in the financial year 2012-13. In the year 2012 securitisation volumes have grown 15% from the last fiscal

[1] http://rbi.org.in/scripts/NotificationUser.aspx?Id=2723&Mode=0

[2] Revisions to the Guidelines on Securitisation Transactions, May 7, 2012, http://rbi.org.in/scripts/NotificationUser.aspx?Id=7184&Mode=0

and after a continuous decline in volumes for the last three years. The priority sector lending requirements of RBI continue to be the major drivers of securitisation volumes. In terms of asset classes, ABS forms the larger part of the securitisation volumes. However, in financial year 2012-2013, the volumes shrunk by 20% due to the uncertainty in the market on the tax front.

Key investors in the market:

The key investors in the securitisation instruments are largely as follows:

a. Banks/ Financial Institutions/ NBFCs
b. Mutual Funds
c. Insurance Companies

In India the key motivations to invest in securitized paper have been meeting the priority sector lending requirements, capital relief and liquidity. However, the motivations to invest in securitized paper for various investor segment are myriad.

Motivations for investments in securitised paper:

Securitised paper is typically highly rated (typically can reach AAA rating as well), fully secured, yet provide good yields. The advantages of securitisation to the investors in general and insurance companies in particular include the following:

- Better Security, as investors have a direct claim over a portfolio of assets;
- Investment in rated structured finance products;
- Rating Resilience, as securitisation investment is considered safer than corporate debt;
- Flexible Instruments to serve various investment objectives;
- Diversification in investment portfolio;
- Fixed income security, availability of medium term and long term instrument.

Therefore, considering the above advantages, investment in securitised paper may be an attractive option for insurance companies.

Investment Regulations on ABS investment for Insurance companies:

Section 27, 27A and 27B[3] of the Insurance Act, 1938 provides for provisions with regard to investment to be made by Insurance Companies. Section 27 and 27A of the Insurance Act are applicable to life insurers, section 27B is applicable to such insurers carrying on general insurance business.

Insurance Regulatory and Development Authority had in August, 2000 issued Insurance Regulatory and Development Authority (Investment) Regulations, 2000[4] with regard to limits on permissible investments that insurance companies (both life insurance companies and general insurance companies) can make under Section 27, 27A and 27B of the Insurance Act, 1938.

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[3] Section 27A and Section 27B of the Insurance Act, 1938 specifies provisions regarding investments for insurers carrying on life insurance and general insurance business respectively. Further, Schedule I and Schedule II of the Investment Regulations as amended from time to time, issued by IRDA specifies list of approved investments for Life Business and General Business respectively.

[4] http://www.irda.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=RL&mid=4.2 (All IDRA investment regulations and amendments thereof can be found here)

Further, the current IRDA (Investment) (Fifth Amendment) Regulations, 2013 details out the limits for investment in ABS with underlying assets being housing loans/ infrastructure assets[5]. The relevant extract of the extant investment regulations (IRDA (Investment) (Fifth Amendment) Regulations, 2013) is reproduced below:

No.	***Type of Investment***	***Percentage to funds as under Regulation 3(a)***
4(v)	*Investment in housing and infrastructure by way of subscription or purchase of :* ***A. Investment in Housing:*** *a. Bonds/ Debenture of HUDCO and National Housing Bank.* *b. Bonds/ Debentures of the Housing Finance Companies either duly accredited by the 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) Regulation, 1999* *c. Asset Backed Securities with underlying housing loans, satisfying the norms specified in the guidelines issued under these regulations from time to time.*	*Total Investment in housing and infrastructure (i.e.,) investment in categories (i), (ii), (iii) and (iv) above taken together shall not be less than 15% of the fund under Regulation 3(a)*
No.	***Type of Investment***	***Percentage of Total Investment Assets***
7(v)	*Housing and loans to State Government for Housing and Fire Fighting equipment, by subscription or purchase of:* ***A. Investment in Housing:*** *a. Bonds/ Debenture of HUDCO and National Housing Bank.* *b. Bonds/ Debentures of the Housing Finance Companies either duly accredited by the 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) Regulation, 1999* *c. Asset Backed Securities with underlying housing loans, satisfying the norms specified in the guidelines issued under these regulations from time to time.*	*Total Investment in housing (i.e.,) investment in categories (i), (ii), (iii) and (iv) above taken together shall not be less than 5% of the Investment Asset.*

[5] With respect to investment in ABS/MBS, sub-clause (v) of Clause (b) of these Schedules permits investment in *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 IRDA (Registration of Indian Insurance Companies) Amendment Regulations, 2008 as amended from time to time.*