

Consultation on Insurers' Investment in Infrastructure SPVs

Background

The Government of India during last decade prioritized infrastructure development as a critical enabler of growth and made high capital expenditure allocations in the Union Budgets in the recent past. Apart from economic growth, infrastructure development is seen as a pathway for other priorities for Vision 2047. IRDAI investment regulations also give priority to the infrastructure investments and specify mandatory minimum limits under the housing and infrastructure sector.

Further, recent RBI directions with respect to partial credit enhancement permit SCBs (excluding RRBs), AIFIs, NBFCs including HFCs in Middle Layer and above (together termed as "REs") to provide Partial Credit Enhancement (PCE) to bonds issued by corporates/**special purpose vehicles (SPVs)** for funding all types of projects and to bonds issued by Non-deposit taking NBFCs with asset size of ₹1,000 crore and above registered with RBI (including HFCs). The objective behind allowing REs to extend PCE is to enhance the credit rating of the bonds issued so as to enable corporates to access the funds from the bond market on better terms. This initiative facilitates availability of rated bonds of a SPV.

Considering the growth of infrastructure sector in India and as part of continuous regulatory initiatives, it is proposed to facilitates investment norms for investments in SPVs engaged in infrastructure sector where project has commenced Commercial Operation and Cash Flow has stabilized, ***without requirements of parent company guarantee or parent company's networth and rating.***

Once the infrastructure project commences Commercial Operation, the cash flows are more predictable and regular (in the form of toll collection or utility fees or lease payments etc).

Under these circumstances, the SPV has both assets and stable cash flow, thus de-risking the funding to such SPV considerably. At this stage, it is expected that original lenders exit the project and long-term investors step in. Further, at this stage, the SPV offers,

- (i) decent risk adjusted returns,
- (ii) often have nearly monopolistic market position and
- (iii) low technological obsolescence risk.

Insurers with long-term liabilities may find such assets very useful for both asset-liability management and improve return on investment.

Proposed Regulatory Provision

In view of the above, a new provision is proposed to be added after the Note IV of the clause 8 of Schedule III of IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024 which reads as below:

“IV(a): Notwithstanding the provisions mentioned in the note IV above, Insurers are allowed to invest a maximum 20% of the debt issued by Public Limited Special Purpose Vehicle engaged in infrastructure sector and where project has commenced commercial operation and cash flows have stabilized, or amount under clause 8(2)(a), whichever is lower, as a part of Approved Investments, provided:

- i. the proceeds of the issue are utilized to refinance the existing debt/loan of SPV;*
- ii. the debt/loan is treated as standard in the books of the lender;*
- iii. the debt issued shall have minimum credit rating of AA.*

Comments from stakeholders:

IRDAI invite the comments of the stakeholders on the above proposed provision considering the following:

- a) Adequacy to support SPV funding structure in a viable infrastructure project.
- b) Disclosures to be mandated to ensure adequate in-built risk mitigation for investments in such projects.
- c) Any other feedback.

All the stakeholders are requested to submit their comments / suggestions, if any, on the proposed draft regulation within 21 days from the date of circulation to Mr. Manish Misra, AGM at manishmisra@irdai.gov.in and Dr. Ravinder Kaur, DGM at Ravinder.kaur@irdai.gov.in

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