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IRDAI allows insurers to invest in debt ETFs of CPSE

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Hyderabad: Insurers in India will now be able to diversify their investments further with insurance regulator, Insurance Regulatory and Development Authority of India (IRDAI), now allowing them to also invest in debt ETFs (exchange traded funds) with underlying debt securities of central public-sector enterprises (CPSEs).

Earlier this month, the Union Cabinet approved the launch of ETFs for bonds to create an additional source of funding for CPSEs.

"The IRDAI hereby permits debt ETFs with underlying debt securities of CPSEs proposed to be launched in India, as eligible class of investment, and as a part of mutual fund exposure," IRDAI said in a circular on Wednesday.

The insurance watchdog said that all exposure and prudential norms applicable to investments in mutual funds investments shall apply for investments made in debt ETFs also. As per the circular, the debt ETF shall invest in a basket of securities issued by CPSEs, which are part of constituents' of a publicly available index. "If any of the underlying securities gets downgraded below 'AA', the debt ETF shall be automatically reclassified under 'other investment'," it added.

Bajaj Allianz General Insurance chief investment officer Amit Joshi said the move will give institutional investors like insurance companies an additional avenue for investment. "We have been investing directly in these bonds for our portfolio management. The ETF setup provides a ready-made basket of quality bonds, hence operationally it makes it easier to take exposure in diversified manner at a low cost."

Even Universal Sompo General Insurance chief investment officer Hareshwar Karekar reiterated that it will be an added avenue for investment in fixed income assets, although insurers already have direct exposure in the form of debt security issued by CPSEs like REC and PFC among others. He, however, added that in the present market condition, investment in debt ETFs will be beneficial only if liquidity can be assured.

Prashant Sharma, chief investment officer, Aviva India said debt ETF is a good investment avenue for all investors as it provides a diversified, low-risk fixed income option to invest in quality public sector entities. "The option becomes more attractive for individuals given it is tax efficient, carries low volatility, has a flexible ticket size and reasonable liquidity," he added.