

Insurance Regulatory and Development Authority

LIFE INSURANCE PRODUCTS-Guidelines for Unit Linked Life Insurance Products

CIRCULAR NO: 032/IRDA/Act1/Dec-2005

Dated: 21/12/05

1. Application.-

1.1 THIS CIRCULAR, WHICH IS FURTHER TO CIRCULAR NO. IRDA/ACTL/FUP/VER 2.0/ DEC 2003/ DATED: 18/12/2003, IS APPLICABLE TO ALL REGISTERED LIFE INSURERS CARRYING ON LIFE INSURANCE BUSINESS IN INDIA, REGISTERED IN ACCORDANCE WITH SECTION 3 OF THE INSURANCE ACT, 1938 IN RESPECT OF ALL LIFE INSURANCE PRODUCTS CLASSIFIED UNDER LINKED BUSINESS, INCLUDING PENSION AND ANNUITY BUSINESSES.

2. Back Ground:

2.1 With the opening of the insurance sector, Unit Linked Insurance Products (ULIP) have emerged as popular products and the sector has been witnessing significant growth in this line of business in addition to growth of traditional insurance products.

2.2 Considering the several features differentiating the linked insurance products from the traditional insurance products, a review of the products has become necessary to assess the extent to which the following objectives interalia, were served, for the protection of interests of the policyholders:

1. Provision of a fair insurance coverage
2. Disclosures to facilitate informed decision by the policyholders as the investment risks are borne by them
3. Preserving the long term nature of the insurance products.

2.3 The various aspects of unit linked business have therefore been examined in detail in consultation with insurance companies and a set of guidelines has been framed governing the features of the Unit Linked Insurance business in general and the products to be offered thereunder by the companies, in particular. The guidelines are intended to enhance transparency, provide better understanding of the product design to intending investors/policyholders, enlarge the insurance cover in a consistent manner and **mainly to conform to the medium and long term investment characteristics of insurance products**. Insurance companies are advised to strictly comply with the guidelines and also give adequate publicity to the various features of the Unit Linked Life Insurance Products on their websites and the sales literature for the benefit of customers.

3. Criteria:

Unit Linked products and business should, at the minimum, satisfy the following features and criteria:

- ✦ Reasonable insurance cover with a linkage to the premium payment during the term of the contract;
- ✦ Availability of greater part of a **targeted sum** at the longer end;

- ↯ Basic features of **life insurance** contract **including long term nature**;
- ↯ Avoid technical **jargon**;
- ↯ Remain **simple** for the public to understand.
- ↯ Complete **transparency** in all aspects of the product terms & conditions;
- ↯ Despite the investment risk being borne by the policyholder, the investment strategy is aligned to **long term nature** of these contracts;
- ↯ Adequate disclosure of **information** pertaining to investment of funds and the elements of **risk** involved;
- ↯ A standard method, across the industry, with regard to computation of **NAV** (Net Asset Value);

4. With a view to meeting the general and specific objectives for unit linked life insurance products, stated in paras#2 & 3 above, the Authority stipulates the guidelines in para #5. These will come into effect immediately and implemented as under.

- I. The existing products should be modified to fall in line with the above guidelines. While there is no restriction on sale of these products (during the transition period (not beyond 30th June, 2006)), insurers should take steps to modify them as early as possible in a phased manner, and file with the Authority for information before use. As a special case, the products so filed can be used without waiting for 30 days period. **The above procedure for such products call for modification of all relevant documents such as policy document, proposal form, sales literature, sales illustration and advertisement material and filing with the Authority before use. This shall be subject to completion of an internal check (at the insurer's end) to satisfy that the products and related documents conform to the guidelines and certification by the CEO and the Appointed Actuary. The Authority would carry out a check of the compliance at a later date and violations, if any observed, will invite serious action. The insurers are accordingly advised to carry out the requisite modification of the existing products, and complete the**

exercise latest by 30th June, 2006. The existing products which are not modified shall not be sold after 30th June 2006.

- II. All the products filed but not yet cleared by the Authority shall be required to be filed afresh after modifying to conform to the guidelines.

5. Guidelines on Unit Linked Life Insurance Products

The guidelines are detailed in the Annexure and have been classified into 6 Parts, namely:-

S.No	Part	Description
1	Part -I	Product Design

		Annexure	Description
		I	Terminology
		II	Charges
		III	Forms to be furnished to the IRDA
2	Part -II	Market Conduct	
3	Part -III	Disclosure Norms	
4	Part -IV	Advertisements	
5	Part -V	Furnishing of Information	
6	Part -VI	Rating of unit linked funds	

6 Review of the guidelines:

6.1 The Authority proposes to make a detailed review of the guidelines at an appropriate date for such modifications as may be deemed necessary towards protection of the interests of the policyholders.

/Sd.
(C.R.MURALIDHARAN)
Member

Annexure-Guidelines on Unit Linked Insurance Products

PART-I Product Design

Approved terminology stated under various items under these guidelines should be used as per Annexure-I at all times and shall not be changed and other terminology/definitions shall not be used.

1. Benefit payable on death:

1.1. The table 1.2 below specifies the minimum sum assured in respect of death benefit under unit linked life insurance contracts where:

1.1.1 T is Policy Term (PT) chosen by the policyholder (T shall be taken as 70 minus age at entry in case of Whole Life Products).

1.1.2 AP is Annualized Premium selected by the policyholder at the inception of the policy.

1.1.3 SP is Single Premium chosen by the policyholder at the inception of the policy.

1.2 The minimum sum assured shall be at least equal to:

Table: 1.2

<u>Type of products</u>	<u>Minimum Sum Assured</u>
Single Premium Products	125% of the SP
Non-Single Premium Products	0.5 x T x AP or 5 x AP, whichever is higher

1.2.1 In respect of products under pension and annuity business Table 1.2 is not mandatory.

1.3. Other Conditions:

1.3.1 The sum assured payable on death shall not be reduced at any point of time during the term of the policy except to the extent of the partial withdrawals made during the two year period immediately preceding the death of the life assured. However, on attainment of 60 years of age of the life assured, all the partial withdrawals may be set off against the sum assured payable on death.

1.3.3. No cover should be extended after the expiry of the policy term and only settlement options (which are clearly outlined at the commencement of the contract) may be allowed.

2. Minimum Policy Term: The minimum policy term shall be **five** years.

3. Guarantees on policy benefits:

A linked product must have a guaranteed sum assured payable on death and may have a guaranteed maturity value.

3.1. General aspects on Guarantees: Guarantees provided on death, and/or on maturity shall be reasonable and consistent in relation to the current and long term interest rate scenario. In this regard, demonstration of proper pricing, including the appropriateness through sensitivity and scenario testing shall be required under the File and Use Procedure for all the guarantees provided for.

4. Surrender value (SV):

4.1 Where a Unit Linked Life Insurance Policy acquires a surrender value, it shall become payable only after the completion of the third policy anniversary.

4.2 The "Surrender Value" or the "surrender value formula" must be published in the policy document and all other promotional materials of the life insurance contract.

5 Options available on discontinuance of premiums:

5. (i) Discontinuance of due premiums after paying at least three consecutive years premium:

5.1. If all the due premiums have been paid for at least three consecutive years and subsequent premiums are unpaid, life insurers shall give an opportunity to the policyholders to revive the contract within the limited period allowed for revival as per policy conditions.

5.2 During this limited period for revival, the insurance cover under the Unit Linked Life Insurance contracts shall be continued levying appropriate charges.

5.3 At the end of the allowed period for revival, if the contract is not revived, the contract shall be terminated by paying the surrender value. However, the life insurers can offer to continue the insurance cover under such contracts, if so opted to by the policyholder, levying appropriate charges until the fund value does not fall below an amount equivalent to one full year's premium,.

5.4 When the fund value reaches an amount equivalent to one full year's premium, the contract shall be terminated by paying the fund value. It is clarified that the intention is to ensure Payment of a minimum of one full year's premium to the policyholder.

5. (ii) Discontinuance of due premiums within three years of inception of the policy:

5.6 If all the due premiums have not been paid for at least 3 consecutive years from inception, the insurance cover under the Unit Linked Life Insurance contracts shall cease immediately.

5.7 Insurers shall give an opportunity to the policyholders to revive within the period allowed for revival as per policy conditions.

5.8 In case the contract is not revived during this period, the contract shall be terminated and the surrender value, if any, shall be paid at the end of third policy anniversary or at the end of the period allowed for revival whichever is later.

6. Loans: No loans shall be granted under Linked Insurance products.

7. Top-up Premium:

7.1 A top-up premium is an amount of premium that is paid by the policyholders at irregular intervals besides basic regular premium payments specified in the contract and is treated as single premium.

7.2 Top-up premiums can be remitted to the insurer during the period of contract only, where due basic regular premiums are paid up to date and if expressly stated in the terms and conditions of the contract.

7.3 At any point of time during the term of the contract, so long as the total amount of top-up premiums remain within the 25% of the total amount of the basic regular premiums paid up to that date, the top-up premium will not be required to have any insurance cover (as required in Table 1.2 above) and the balance amount of such top-up premium shall have an insurance cover as specified in Table 1.2 (for single premium contracts) above and shall remain constant during the period of the contract. The provisions in this para shall not apply in respect of pensions and annuity business.

8. Partial Withdrawal:

8.1. The first partial withdrawal is allowed only after third policy anniversary for all regular premium contracts and single premium contracts.

8.2. Where partial withdrawals have been granted, in case of death during the term of the policy, the sum assured may be reduced to the extent of the amount of partial withdrawals made during the two year period immediately preceding the death of the life assured. However, on attainment of 60 years of age of the life assured, all the partial withdrawals may be set off against the sum assured payable on death. The provisions in this para shall not apply in respect of pensions and annuity business.

8.3. For the purpose of partial withdrawals, all top-up premiums-whether or not associated with insurance cover-shall be treated as single premium; for a top-up premium made during the period of the contract, a lock-in period of three years shall apply from the date of payment of that top-up premium (this condition will not apply if the top-up premiums are paid during the last three years of the contract).

9. Settlement Option:

9.1 There is no objection for an insurer providing to the policyholder settlement options, providing only periodical payments, in the contract so as to avoid the possibility of fluctuations affecting the maturity value. Settlement options should clearly indicate the inherent risk being borne by the policyholder during the period and should be explicitly understood by the policyholder. The period of settlement should not, in any case, be extended beyond a period of **five** years from the date of maturity. The provisions in this para shall not apply in respect of pensions and annuity business.

10. Unit Pricing:

10.1 The basic equity principle of unit pricing for any unit linked fund offered by the life insurer shall be:

"The interests of policyholders who have purchased units in that fund and not involved in a unit transaction should be unaffected by that transaction"

10.2 The unit pricing shall be computed based on whether the company is purchasing (appropriation price) or selling (expropriation price) the assets in order to meet the day to day transactions of unit allocations and unit redemptions i.e. the life insurer shall be required to sell/purchase the assets if unit redemptions/allocations exceed unit allocations/redemptions at the valuation date.

10.3 The **Appropriation price** shall apply in a situation when the company is required to purchase the assets to allocate the units at the valuation date as stated in 10.2. This shall be the amount of money that the company should put into the fund in respect of each unit it allocates in order to preserve the interests of the existing policyholders.

10.4 The **Expropriation price** shall apply in a situation when the company is required to sell assets to redeem the units at the valuation date as stated in 10.2. This shall be the amount of money that the company should take out of the fund in respect of each unit it cancels in order to preserve the interests of the continuing policyholders.

10.5. Computation of NAV:

10.5.1 when Appropriation price is applied: The NAV of a Unit Linked Life Insurance Product shall be computed as: Market value of investment held by the fund plus the expenses incurred in the purchase of the assets plus the value of any current assets plus any accrued income net of fund management charges less the value of any current liabilities less provisions, if any. This gives the net asset value of the fund. Dividing by the number of units existing at the valuation date (before any new units are allocated), gives the unit price of the fund under consideration.

10.5.2 When Expropriation price is applied: The NAV of a Unit Linked Life Insurance Product shall be computed as: Market Value of investment held by the fund less the expenses incurred in the sale of the assets plus the value of any current assets plus any accrued income net of fund management charges less the value of any current liabilities less provisions, if any. This gives the net asset value of the fund. Dividing by the number of units existing at the valuation date (before any units are redeemed), gives the unit price of the fund under consideration.

10.6 Uniform cut-off timings for applicability of Net Asset Value:

The allotment of units to the policyholder should be done only after the receipt of premium proceeds as stated below:

10.6.1: Allocations (premium allocations, switch in):

10.6.1.1 In respect of premiums/funds switched received up to 4.15 p.m. by the insurer along with a local cheque or a demand draft payable at par at the place where the premium is received, the closing NAV of the day on which premium is received shall be applicable.

10.6.1.2 In respect of premiums/funds switched received after 4.15 p.m. by the insurer along with a local cheque or a demand draft payable at par at the place where the premium is received, the closing NAV of the next business day shall be applicable.

10.6.1.3 In respect of premiums received with outstation cheques/demand drafts at the place where the premium is received, the closing NAV of the day on which cheques/demand draft is realized shall be applicable.

10.6.1.4 Having regard to the above, insurer shall ensure that each and every payment instrument is banked with utmost expedition at the first opportunity, given the constraints of banking hours, prudently utilizing every available banking facility (e.g. high value

clearing, account transfer etc.) Any loss in NAV incurred on account of delays, shall be made good by the insurer.

10.6.2: Redemptions:

10.6.2.1 In respect of valid applications received (e.g. surrender, maturity claim, switch out etc) up to 4.15 p.m. by the insurer, the same day's closing NAV shall be applicable.

10.6.2.2 In respect of valid applications received (e.g. surrender, maturity claim, switch etc) after 4.15 p.m. by the insurer, the closing NAV of the next business day shall be applicable.

10.7 NAV for each segregated fund provided under unit linked life insurance contracts shall be made available to the public in the print media on a daily basis. Also the NAV shall be displayed in the respective web portals of the life insurer.

11. Charges:

The life insurers shall use a uniform definition of charges under all their unit linked life insurance products in order to give a better and clear understanding amongst the insuring public. The list of proposed charges with their definition is enclosed as **Annexure II**.

12. Other conditions

12.1 Riders:

12.1.1 All the riders to be attached to a unit linked life insurance contracts shall be filed separately with the Authority. The rider premium shall be exclusive of expense loadings. The expenses shall be explicitly stated and levied separately in a transparent manner to the fund.

12.1.2 However, insurers have the option to continue the existing practice of appropriating the cost of rider by cancellation of units, provided, the rider cost including all the other charges on the fund, relating to the rider premium (like allocation charge, fund management charge etc), shall not exceed the actual rider premium filed with the Authority.

12.2 Exposure to money market instruments under all linked products and to equities in respect of group gratuity and group superannuation shall be as per existing investment guidelines prescribed for other products.

13. Sales Illustrations:

13.1 The Life Insurance Council shall put in place in concurrence with the Authority by 31st March 2006 the model/method for the sales illustration which should reflect the effect of charges (in terms of reduction in return) corresponding to the lower and higher investment returns and client specific details like age, intended premium size, the contract term, sum assured etc.

14. Furnishing Statements of Accounts:

14.1 Unit statement account shall form a part of the policy document.

14.2 Unit statement shall make a reference to the terms and conditions applicable under the respective policy document.

14.3 Unit statement shall be issued on every policy anniversary and also as and when a transaction takes place.

Annexure-I: Terminology

1 Approved Terminology:

1. **Sum Assured:** Sum assured is the guaranteed amount, net of permissible partial withdrawals (as per para 1.3.1 & 8.2), of the benefit that is payable on death of the life assured.
2. **Guaranteed Surrender Value:** As defined in the provisions of Section 113 of Insurance Act, 1938.
3. **Top-up premium:** A top up premium is an amount (s) paid at irregular intervals during the period of contract. This is an additional amount of premium over and above the contractual basic premiums charged at the commencement of the contract.
4. **Fund value:** Fund value at any point of time represents the value of units at that point of time i.e. number of units multiplied by the price of the units.
5. **Partial Withdrawals:** Any part of fund that is encashed/withdrawn by the policyholder during the period of contract is referred to as partial withdrawal.
6. **Switches:** This is the facility allowing the policyholder to change the investment pattern by moving from one fund to other fund(s) amongst the funds offered under the underlying product of the insurer.
7. **Premium re-direction:** This is the facility allowing the policyholder to modify the allocation of amount of renewal premium into a different investment pattern from the option (investment pattern) exercised at the inception of the contract.
8. **Surrender:** Surrender means terminating the contract once for all. On surrender a surrender value is payable which is usually expressed as fund value less the surrender charge (the surrender charge could be zero at the later part of the contract).
9. **Regular Premium Contracts:** ULIPs where the premium payment is level and paid in regular intervals like yearly, half-yearly etc.
10. **Single premium contracts:** ULIPs where the premium payment is made by a single contribution (a one time payment) at the inception.
11. **Limited premium payment contracts:** ULIPs where the premium payment period is limited compared to the policy term. The premium is payable at regular intervals like yearly, half-yearly etc. premium contracts.
12. **Whole Life Contracts:** ULIPs which do not have a definite policy term and the contract terminates on death of the life assured. This can be issued with item 9 or 10 or 11 stated above.
13. **Sales illustrations:** This is a document furnished in accordance with life insurance council circular number LC/SP/Ver 1.0 dated 3rd February, 2004, conceals the effect of charges on the value of benefits at various stages of a unit linked

contract. The illustrations furnished for these contracts shall inter alia furnish the yield, net of charges, corresponding to both the higher and lower interest rate scenario.

14. **Death benefit:** The amount of benefit which is payable on death as specified in the policy document. This is stated at the inception of the contract.
15. **Maturity benefit:** The amount of benefit which is payable on maturity i.e. at the end of the term, as specified in the policy document. This is stated at the inception of the contract.
16. **Survival benefit:** The amount of benefit which is payable at specific intervals, on survival to that period during the period of contract as specified in the policy document. This is stated at the inception of the contract.
17. **Units:** This is a portion or a part of the underlying segregated unit linked fund. Re. 1/- . This is stated in the unit linked policy documents.
18. **Rider benefits:** The amount of benefit payable on a specified event (for instance, accident), and is allowed as add on to main benefit.
19. **Settlement options:** A facility made available to the policyholder to receive the maturity proceeds in a defined manner (the terms and conditions are specified in advance at the inception of the contract).
20. **Unit Linked Fund:** Unit-linked fund pools together the premiums paid by policyholders and invest in a portfolio of assets to achieve the fund(s) objective. The price of each unit in a fund depends on how the investments in that fund perform. The fund will be managed by the insurer.
21. **Fund Value:** This is the product of the total number of units under a policy and the NAV (Net Asset Value per unit).
22. **Valuation of funds:** The determination of the value of the underlying assets of the unit fund.
23. **Redemption:** Encashing the units at the prevailing unit price offered by the life insurer where the process involves cancellation of units. This is applicable in case of exercising partial withdrawal, switch, maturity, surrender etc.
24. **Allocation:** creating the units at the prevailing unit price offered by the life insurer. This is applicable in case of premium payments and switches.

Annexure-II: Charges

1. Premium Allocation Charge:

1.1 This is a percentage of the premium appropriated towards charges from the premium received. The balance known as allocation rate constitutes that part of premium which is utilized to purchase (investment) units for the policy. The percentage shall be explicitly stated and could vary inter alia by the policy year in which the premium is paid, the premium size, premium payment frequency and the premium type (regular, single or top-up premium).

1.2 This is a charge levied at the time of receipt of premium.

1.3 If Actuarial Funding is adopted, this charge may also include an initial management charge, which is levied on the units created from the first years' premium, for a specified period.

1.4 **Example:** If premium = Rs.1000 & Premium Allocation Charge: 10% of the premium; then the charge is: Rs.100 and Balance amount of premium is Rs.900 and is utilized to purchase units.

2. Fund Management Charge (FMC):

2.1 This is a charge levied as a percentage of the value of assets and shall be appropriated by adjusting the Net Asset Value as prescribed in para 10.5 of PART-I.

2.2 This is a charge levied at the time of computation of NAV, which is usually done on daily basis.

2.3 **Example:** If Fund Management charge (FMC) is 1% p.a. payable annually; Fund as at 31.3.2004 before FMC is Rs.100/- and Fund after this charge is Rs.99/-.

3. Policy Administration Charge:

3.1 This charge shall represent the expenses other than those covered by premium allocation charges and the fund management expenses. This is a charge which may be expressed as a fixed amount or a percentage of the premium or a percentage of sum assured. This is a charge levied at the beginning of each policy month from the policy fund by canceling units for equivalent amount.

3.2 This charge could be flat throughout the policy term or vary at a pre-determined rate. The pre-determined rate shall preferably be say an x% per annum, where x shall not exceed 5.

3.3 **Example:** Rs.40/- per month increased by 2%p.a. on every policy anniversary.

4 Surrender Charge:

4.1 This is a charge levied on the unit fund at the time of surrender of the contract.

4.2 This charge is usually expressed either as a percentage of the fund or as a percentage of the annualized premiums (for regular premium contracts).

5. Switching Charge:

5.1 This a charge levied on switching of monies from one fund to another available within the product. The charge will be levied at the time of effecting switch and is usually a flat amount per each switch.

5.2 Example: Rs.100 per switch.

6. Mortality charge:

6.1 This is the cost of life insurance cover. It is exclusive of any expense loadings levied either by cancellation of units or by debiting the premium but not both. This charge may be levied at the beginning of each policy month from the fund.

6.2 The method of computation shall be explicitly specified in the policy document. The mortality charge table shall invariably form part of the policy document.

6.3 Mortality rates are guaranteed during the contract period, which are filed with the Authority.

7. Rider premium charge:

7.1 Rider cover cost: This is the premium exclusive of expense loadings levied separately to cover the cost of rider cover levied either by cancellation of units or by debiting the premium but not both. This charge is levied at the beginning of each policy month from the fund.

8. Partial withdrawal charge:

8.1 This is a charge levied on the unit fund at the time of part withdrawal of the fund during the contract period.

9. Miscellaneous charge:

9.1 This is a charge levied for any alterations within the contract, such as, increase in sum assured, premium redirection, change in policy term etc. The charge is expressed as a flat amount levied by cancellation of units.

9.2 This charge is levied only at the time of alteration.

9.3 Example: Rs.100/- for any alteration such as increase in sum assured, change in premium mode etc.

10 Notes:

10.1 All the charges other than premium allocation charge and cost of life insurance/mortality cost shall have an upper limit.

10.2 All the charges stated above, where relevant, may be modified with supporting data within the upper limits with prior clearance from the Authority.

PART-II Market Conduct

1. Market conduct:

1. For better understanding of the complexities of Unit Linked Life Insurance Products, the Life Insurance Council shall put in place, in concurrence with the Authority, by 31st March 2006 the guidelines for the market conduct which should include interalia the following:

1.1. (a) Separate training to all the insurance agents/intermediaries before they are authorized to sell unit linked life insurance products. The curriculum for this training should interalia contains the basic features and inherent risks in these products;

1.1(b) Periodical in house refresher training to the persons involved in soliciting or procuring the business (agents/intermediaries).

1.1 (c) The records of such persons (agent/intermediaries), who have undergone this specific training, shall be maintained.

1.2 Appropriate documentation forming part of the proposal papers to demonstrate informed decision making on the part of the proponent in deciding a particular insurance product.

1.3 Provision of the sales illustration statement as prescribed and duly acknowledged by the potential policyholder.

1.4 Code of conduct to ensure no mis-sale takes place.

1.5 Education of the policyholders on an ongoing basis, about the features, risk factors, terminology, definitions of charges etc under these contracts.

1.6 Uniform practice for rounding off the unit prices.

PART-III Disclosure Norms

1. Disclosure Norms:

1.1. All Life Insurers should necessarily and explicitly give information as follows, using the same font size, in all the sales brochures, prospectus of Insurance products, in all promotional material and in policy documents:

1.1.1 The various funds offered along with the details and objective of the fund.

1.1.2 The minimum and maximum percentage of the Investments in different types (like equities, debt etc.), investment strategy so as to enable the policyholder to make an informed investment decision. **"No statement of opinion as to the performance of the fund shall be made any where."**

1.1.3 The definition of all applicable charges, method of appropriation of these charges and the quantum of charges that are levied under the terms and conditions of the policy.

1.1.4 The maximum limit up to which the insurer reserves the right to increase the charges subject to prior clearance of the Authority.

1.1.5. The fundamental attributes and the risk profile (low, medium or high) of different types of investments that are offered under various funds of each unit linked product.

1.1.6 On top of each document including the proposal form mention, **"IN THIS POLICY, THE INVESTMENT RISK IN INVESTMENT PORTFOLIO IS BORNE BY THE POLICYHOLDER"**

1.2. The policyholder should be given the full details, **using the same font**, related to the investments, as an annual report, covering the fund performance during the preceding financial year in relation to the economic scenario, market developments etc. which should include particulars like:

1.2.1 The investment strategies and Risk Control measures adopted.

1.2.2 The changes in fundamentals, *such as interest rates, tax rates, etc.*, affecting the investment portfolio.

1.2.3 The composition of the fund (debt, equity etc.), analysis within various classes of investment, investment portfolio details, sectoral exposure of the underlying funds and the ratings of investments made.

1.2.4 Analysis according to the duration of the investments held.

1.2.5 Performance of the various funds over different periods like 1 year, 2 years, 3 years, 4 years, 5 years and since inception along with comparative benchmark index.

1.3. All the Life Insurers are required to issue the periodical statements of accounts to policy holders as stated in para 14 of Part-I.

PART-IV Advertisements

1. Advertisements:

1.1. An advertisement shall ensure the dissemination to all policyholders of adequate, accurate, explicit and timely information fairly presented in a simple language about:

1.1.1 A factual picture of inherent risks involved.

1.1.2 Should clearly distinguish the fact that the Unit Linked products are different from the traditional Life Insurance products so that at no point of time the prospective policy holders will be misled while choosing the Unit Linked products.

1.1.3 The risk factors associated with specific reference to fluctuations in investment returns and the possibility of increase in charges.

1.1.4 The premiums and funds are subject to certain charges related to the fund or to the premium paid.

1.1.5 The contingency on which the guarantee, if any, is payable and the exact quantum of such guarantee.

1.2 The terminology used in all the advertisements shall be simple, concise and understandable to convey the exact meaning to the policyholders as all of them may not be sophisticated in legal or financial matters and shall avoid the usage of technical jargon and also terms which can have different interpretations or detract the policyholders.

1.3 Care should be taken while reporting the past performance of the funds in advertisements, as well as in any other promotional material like sales illustrations, sales brochures etc. It should contain only the results of the funds and be duly supported by related figures. The emphasis on past performance must be reduced in the advertisements, however, past performance, wherever intended to be reported, shall contain:

1.3.1 Compound annual returns (shall adopt standardized computations) for the previous five calendar years, expressed as a percentage rounded to the nearest 0.1%.

1.3.2 Where last five calendar years data are not available, as many years as possible must be shown.

1.3.3 Where data is not available for at least one calendar year, past performance shall not be shown.

1.3.4 The life insurers shall not be permitted to demonstrate a link between the past performance and the future.

1.3.5 It should clearly state, in the same font, that the past performance is not indicative of future performance.

1.3.6 Corresponding benchmark index performance, if any, shall be included.

1.4 All the advertisements of Unit Linked Life Insurance products should disclose the risk factors as stated in the policy document along with the following warning statements:

1.4.1 Unit Linked Life Insurance products are different from the traditional insurance products and are subject to the risk factors.

1.4.2 The premium paid in Unit Linked Life Insurance policies are subject to investment risks associated with capital markets and the NAVs of the units may go up or down based on the performance of fund and factors influencing the capital market and the insured is responsible for his/her decisions.

- 1.4.3 _____ is only the name of the Insurance Company and _____ is only the name of the unit linked life insurance contract and does not in any way indicate the quality of the contract, its future prospects or returns.
- 1.4.4 Please know the associated risks and the applicable charges, from your Insurance agent or the Intermediary or policy document the insurer.
- 1.4.5 The various funds offered under this contract are the names of the funds and do not in any way indicate the quality of these plans, their future prospects and returns.
- 1.4.6 In view of the paucity of time and space, on the advertisements in the hoardings and posters and in audio visual media, wherever the unit linked life insurance contract has been advertised, point no (1.4.2) and (1.4.3) should have a place invariably.
- 1.5 The advertisements shall not compare funds offered by one insurer with funds offered by another insurer, implicitly or explicitly.
- 1.6 Any advertisement reproducing or purporting to reproduce any information contained in as policy document shall reproduce such information in full and disclose all relevant facts and not be restricted to select extracts relating to that item which could be misleading.
- 1.7 **Every advertisement must comply with IRDA (Insurance Advertisements and Disclosure) Regulations, 2000.**

PART-V Furnishing of Information

1. Furnishing of Information to IRDA: All the life insurers have to furnish data in respect of the following information relating to their unit linked policies to the Authority in a prescribed format every half year i.e. up to September and March (to be received within two months from the close of the half-year), to enable the Authority to monitor the functioning of various options offered under unit linked policies.

- 1.1 switching options exercised by the policy holder.
- 1.2 premium redirections exercised by the policy holders.
- 1.3 partial withdrawals allowed.
- 1.4 top-up premiums received.
- 1.5 insurance cover multiple granted for each product term-wise separately for Single Premium and non-Single Premium contracts.
- 1.6 Expense ratios and fund performance for each fund.

The formats required for this purpose will be prescribed and sent separately.

Note: This is in addition to the monthly business statistics that is being furnished to the Authority.

PART-VI- Rating of Unit Linked Funds

1. Rating of Unit Linked Funds: The Authority suggests that the Life Insurers should move towards the evaluation of their respective unit linked funds done by an independent rating agency with an objective of providing qualitative information to the policyholder as to the assessment of performance of the various unit linked funds to enable the insuring public to choose the product in an informed manner. **This information will provide the prospects a level of comfort on operational practices, fund management quality, organizational strength of life insurers.** This may be initiated by the life insurers on a voluntary basis.

END