भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

Title: Circular

Reference No.:20/IRDA/Actl/ULIP/09-10 **Date:**22/07/2009

Unit linked products - Cap on charges

The Insurance Industry has introduced ULIPs which have found favour with insurance customers in India. These products prescribe certain charges which are deducted either from contributions or from the fund. In 2005, the IRDA had in its Circular No.032/IRDA/Actuary/DEC-2005 dated 21/12/2005 defined various charges which could be levied for the management of the ULIPs. The IRDA has observed that the insurance industry is generally following these definitions.

However, there are several heads of charges and in order to enable the customers to comprehend ULIPs, the IRDA had also mandated a signed customer-centric benefit illustration to be included as part of the policy document. This was to ensure that the customers would have a clear understanding of the product before making an investment decision.

In order to further enhance clarity and to ensure that the charges are reasonable, relevant to the services being provided and clearly understandable by the customers, the IRDA through this Circular mandates an overall cap on all charges put together. Care has been taken to enable the insurers freedom to distribute charges across the policy term in order to impart flexibility and facilitate product innovation.

It is important to keep in mind that insurance is a long term business and policy measures should encourage such long term savings through various instruments available in the insurance sector. On an analysis, it is established that the majority of the products have a tenor of 10 years and above and a smaller proportion is with a tenor of less than 10 years.

Hence to encourage long term business and enable policyholders to earn additional returns thereby and taking into account the product features and the current cost structure, it is mandated that the cap on charges will be based on the difference between gross and net yields of any product. The net yield is the gross yield adjusted for all charges. **For insurance contracts which are of a tenor of less than or equal to 10 years duration, the difference between gross and net yields shall not exceed 300 basis points, of which fund management charges shall not exceed 150 basis points. For other contracts, i.e., those whose contract period is above 10 years , the difference between gross and net yields shall not exceed 225 basis points, of which the fund management charges shall not exceed 125 basis points**.It is relevant to note that in many markets across the world the Regulators have prescribed gross and net yield to the customer for ULIPs.

Further, the following must be observed.

a. Extra premium due to underwriting emanating from extraordinary health conditions, cost of all rider benefits, service tax on charges (as applicable) and any explicit cost of investment guarantee shall be excluded in the calculation of net yield
b. In these calculations, all charges should be as per the ‘file and use’ document as approved by the IRDA.
c. Please refer IRDA circular letter IRDA/ACTL/ULIP/2008-09 of January 25, 2008 on ‘benefit illustration’. There should be a specific mention of the gross yield and net yield to the customer at the point of sale. This benefit illustration must be approved by the IRDA.

d. At the time of sale, for benefit illustration purpose, the insurer may assume a growth rate of 10% per annum of the investment as a model, as suggested by the Life Council. This will help the customer to understand the product and charges easily so that the prospect could consider the gross yield and net yield while making an informed decision.
e. At the time of maturity, the insurer must issue the policyholder a certificate showing year-wise contributions, charges deducted, fund value and final payment made to the policyholder taking into account partial withdrawals, if any. In addition, this certificate must also show the actual gross yield and net yield taking into account the actual charges deducted. This certificate must confirm adherence of above prescription.
f. The charges for the ULIPs as filed under the File & Use guidelines as approved by the IRDA, shall not be modified or changed without obtaining the prior approval of the IRDA.

The circular comes into effect from October 1, 2009 so that all products which are approved by the IRDA on or after October 1, 2009 will be governed by the provisions of this circular. All existing products that do not meet the requirements of this circular should be withdrawn or modified by 31 December 2009.

Sd./-

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