

To
CEOs of All Life Insurance Companies

Sub: Unit Linked Insurance Products (ULIPs)

Please refer following circulars:

1. IRDA/Actl/032/ Dec 2005 dated December 21, 2005 and subsequent clarifications issued
2. 061/IRDA/ACTL/March-2008 dated 12th March, 2008
3. IRDA/Actl/ULIP/055/2009-10 dated 24th September, 2009,
4. IRDA/Actl/CIR/ULIP/071/066/04/2010 dated 27th April, 2010 and
5. IRDA/ACTL/CIR/ULIP/071/05/2010 dated 3rd May, 2010

In order to meet the emerging needs of prospective insurance policyholders, this circular specifies certain elements which shall be incorporated in all ULIPs which may be offered for sale to the public commencing from September 1, 2010.

1. The three year lock-in period for all Unit Linked Products will be increased to a period of five years, including top-up premiums. During this period, no residuary payments on policies which are lapsed / surrendered / discontinued will be made. The residuary payments for policies arising out of policies which stand lapsed/surrendered/discontinued during the lock-in period shall be payable on the expiry of the lock in period and in accordance with the relevant Regulations of IRDA.
2. All regular premium / limited premium ULIPs shall have uniform / level paying premiums. Any additional payments shall be treated as single premium for the purpose of insurance cover.
3. All limited premium unit linked insurance products, other than single premium products, shall have premium paying term of at least 5 years.
4. The insurers shall distribute the overall charges, in ULIPs in an even fashion during the lock-in period.
5. All unit linked products, other than pension and annuity products shall provide a minimum mortality cover **OR** a health cover, as indicated below:

(i) Minimum mortality cover should be as follows:

Minimum Sum assured for age at entry of below 45 years	Minimum Sum assured for age at entry of 45 years and above
<u>Single Premium (SP) contracts:</u> 125 percent of single premium. <u>Regular Premium (RP) including limited premium paying (LPP) contracts:</u> 10 times the annualized premiums or (0.5 X T X annualized premium) whichever is higher. At no time the death benefit shall be less than 105 percent of the total premiums (including top-ups) paid.	<u>Single Premium (SP) contracts:</u> 110 percent of single premium <u>Regular Premium (RP) including limited premium paying (LPP) contracts:</u> 7 times the annualized premiums or (0.25 X T X annualized premium) whichever is higher. At no time the death benefit shall be less than 105 percent of the total premiums (including top-ups) paid.

(In case of whole life contracts, term (T) shall be taken as 70 minus age at entry)

(ii) The minimum health cover per annum should be as follows:

Minimum annual health cover for age at entry of below 45 years	Minimum annual health cover for age at entry of 45 years and above
<u>Regular Premium (RP) contracts:</u> 5 times the annualized premiums or Rs. 100,000 per annum whichever is higher, At no time the annual health cover shall be less than 105 percent of the total premiums paid.	<u>Regular Premium (RP) contracts:</u> 5times the annualized premiums or Rs. 75,000 per annum whichever is higher. At no time the annual health cover shall be less than 105 percent of the total premiums paid

6. All top-up premiums made during the currency of the contract, except for pension/annuity products, must have insurance cover treating them as single premium, as per above table.
7. The accumulated fund value of unit linked pension / annuity products is the fund value as on the maturity date. All ULIP pension / annuity products shall offer a minimum guaranteed return of 4.5 per cent per annum or as specified by IRDA from time to time, on the maturity date. This guaranteed return is applicable on the maturity date, for policies where all due premiums are paid. Mortality and / or health cover could be offered along with the pension/annuity products as riders, giving enough flexibility for the policyholders to select covers of their choice.
8. In the case of unit linked pension / annuity products, no partial withdrawal shall be allowed during the accumulation phase and the insurer shall convert the accumulated fund value into an annuity at the vesting date. However, the insured will have an option to commute up to a maximum of one-third of the accumulated value as lump sum at the time of vesting. In the case of surrender, only a maximum of one-third of the surrender value can be commuted after the lock-in period. The remaining amount

must be used to purchase an annuity, subject to the provisions of Section 4 of Insurance Act, 1938.

9. Vide circular 3rd cited above, caps on charges were fixed on Unit Linked contracts with a tenor of 10 years or less and for those with tenor above 10 years. However, taking into account the discontinuance/lapsation/surrender behavior and with a view to smoothen the cap on charges, the following limits are prescribed starting from the 5th policy anniversary:

Annualized Premiums Paid	Maximum reduction in yield (Difference between Gross and Net Yield (% pa))
5	4.00%
6	3.75%
7	3.50%
8	3.30%
9	3.15%
10	3.00%
11 and 12	2.75 %
13 and 14	2.50 %
15 and thereafter	2.25 %

10. The net reduction in yield for policies with term less than or equal to 10 years shall not be more than 3.00% at maturity. For policies with term above 10 years, the net reduction in yield at maturity shall not be more than 2.25%.
11. The maximum loan amount that can be sanctioned under any ULIP policy shall not exceed 40% of the net asset value in those products where equity accounts for more than 60% of the total share and shall not exceed 50% of the net asset value of those products where debt instruments accounts for more than 60% of the total share.
12. Circular No: 2 cited above will stand superseded by this circular and circular numbers 1, 3, 4 and 5 will stand modified to the extent prescribed in this circular.
13. All insurers are directed to conform to these features so that they can introduce the products with due approval from IRDA. From September 1, 2010 all unit linked products offered for sale shall conform to this circular,

(R. Kannan)
Member (Actuary)