



Ref: 055/ IRDA/Actl/ULIP/2009-10

24th September, 2009

To
All Life Insurers

Dear Sir

Sub: Cap on Charges

Please refer our Circular No. 20/IRDA/Actl/ULIP/09-10 dated 22nd July, 2009 and 29/IRDA/Actl/ULIP/2009-10 dated 20th August, 2009. Taking into account the various issues discussed in the 'Appointed Actuaries' meet held on 9th September, 2009, the following clarifications are issued in this regard:

1. The Cap on annual Fund Management Charge in respect of each of the segregated funds shall be 135 basis points.
2. Surrender penalty should be zero after completion of five policy years and thereafter, irrespective of the number of premiums paid(e.g. if DOC is 01.01.2003 then no surrender penalty w.e.f. 01.01.2008).
3. The above circulars are not applicable in case of unit linked health insurance products or any other product which does not offer maturity benefit.
4. In respect of whole life products, the net yield calculation should be demonstrated assuming the duration of (X - entry age) or 30 years whichever is lower, where 'X' is the cover ceasing age as defined in the product, otherwise 'X' should be taken as 100)
5. In respect of 100% allocation charge products, the total charge should be treated as a normal charge and not a charge towards investment guarantee. The 'Benefit Illustration' of such products should clearly reflect the 100% allocation charge as a normal allocation charge and 'Fund available for Investment' should be shown as zero in the first policy year. In fact, any allocation charge should be considered as normal allocation charge and should be shown in the benefit illustration along with funds available for investment. Any statement referring allocation charge as charge towards any benefit guaranteed should be deleted from the sales literature and benefit illustration.
6. Service Tax and any charge towards guarantees are to be disclosed explicitly in the 'Benefit Illustration' **(A revised format is enclosed in Annexure-I).**

7. Computation of net yield:

- a) As per the aforesaid circulars, certain charges are excluded from the calculation of net yield. This implies that the net yield shall be calculated based on the projection of end fund on monthly basis at a specified gross rate of return assuming these charges as zero throughout the term of the contract and premiums are paid as and when due. The equation of value concerning the gross premiums paid by the policyholder and the maturity fund value shall give the effective net yield per annum expected to be earned on the contract at the point of sale.
- b) As the policyholders' behavior with regard to options, for example, partial withdrawals, premium redirection etc. affect the net yield, such options may be ignored throughout the term of the contract in demonstrating the net yield.
- c) A sample calculation of net yield is given in **Annexure – II**.
- d) The customized 'Benefit Illustration' should include all charges as applicable and fund values should accordingly be derived without relating to the projections used for net yield calculation as pointed out under (a) above.
- e) The net yield and hence reduction in yield as calculated, shall be disclosed in the benefit illustration indicating the corresponding gross yield figures.
- f) As per the current practice, the benefit illustration should be shown at Gross investment return of 6% and 10% p.a. but the net yield may be demonstrated only with respect to gross investment return of 10% p.a.

8. The following are to be complied with regard to 'F&U' application:

- a) Compliance of the above circulars is to be demonstrated at the 'F&U' stage by constructing model points viz. min/max (SA, policy term, FMC, Premium Paying Term, Mode, Size of premium), considering various combinations of limiting values of model points, including **extreme scenarios**.
- b) The following declaration is to be added as an additional paragraph in the declaration section of the 'F&U' application:

'It is hereby certified that the product has been analyzed by taking into account various model points comprising of every possible combination of variables like policy term, premium paying term, premium amount, sum assured, entry age, frequency of premium payment etc. as per features of the product and confirm that the product completely complies with the IRDA



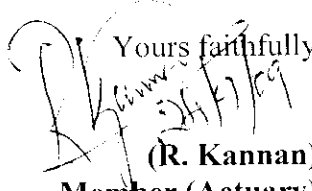
Circular No. 20/IRDA/Actl/ULIP/09-10 dated 22nd July, 2009 and 29/IRDA/Actl/ULIP/2009-10 dated 20th August, 2009 and clarification issued on the above circulars. ”.

9. In respect of products which do not conform with the above circulars, the insurers shall comply with the following:
- a) Products are to be either closed or modified.
 - b) All such products (new/modification) should reach the Authority's office by 1st December, 2009.
 - c) List of products which are on shelf should be sent by 25th September, 2009.
 - d) Soft copy of the 'F&U' application with track changes shall have to be submitted along with the hard copy highlighting the changes made and also a tabular format showing a comparison of the existing and revised structures.
 - e) User-friendly soft copy of the yield calculation sheets in excel format along with formulae should be submitted to enable the Authority to expedite the clearing process.
10. If **the compliance is achieved through modification route** and the Fund Management Charge (FMC) of the existing funds are revised, the revised FMC should be applicable to all policyholders -- both new and existing. If the insurer wants to close the existing funds to new policyholders and offer new funds an option should be offered to the existing policyholders (includes all policyholders whether policies are in force or not as on 01.10.2009) to **shift to the new funds without any penalty within a specified time period. A copy of such option letter which will be sent to the existing policyholder is to be submitted to the Authority.**

Where insurer wants to close the existing product, it should be closed for new business before 01.01.2010. Insurer should inform IRDA the withdrawal of the products as per file & use procedure.

Names of new segregated funds should not be identical with the names of the old segregated funds which are either in closed status or in existence. **However, product names of the existing products can continue to be used in case of modification, with different Unique Identification number.**

11. Please note that if the same segregated fund is offered under more than one product then such fund should have same NAV and FMC.

Yours faithfully

(R. Kannan)
Member (Actuary)

(Applicable to Linked Products)
(This shall form a part of the policy document)

Proposal No

Policy No

PRODUCT FEATURES:

Name of the Product:
Age :
Sum Assured:
Premium Payment Term:
Amount of Instalment premium:
Mode :

Unique Identification No.
Service Tax rate:
Policy Term:
Mode of Premium Payment:
Funds opted for:
[Please specify the customer specific fund option]

Statement of Various charges along with growth of the Fund expected over the duration of the policy with assumed rate of interest as mentioned

Gross Yield	10%
Net Yield	

(All charges are in Rupees)

Policy Year	Annualised Premium	Premium Allocation Charge	Amount available for investment (out of Premium)	Mortality charge	Service tax	Policy Admin. Charge	Guarantee charge	Other charges	Additions to the fund (if any)	Fund before FMC	FMC	Fund at End	Surrender Value	Death Benefit

Gross Yield	6%
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(All charges are in Rupees)

Policy Year	Annualised Premium	Premium Allocation Charge	Amount available for investment (out of Premium)	Mortality charge	Service tax	Policy Admin. Charge	Guarantee charge	Other charges	Additions to the fund (if any)	Fund before FMC	FMC	Fund at End	Surrender Value	Death Benefit

IN THIS POLICY, THE INVESTMENT RISK IS BORNE BY THE POLICYHOLDER AND THE ABOVE INTEREST RATES ARE ONLY FOR ILLUSTRATION PURPOSE.

Notes:-

Insurer shall specify:-

- 1 other charges along with rate/amount.
- 2 fund at the start shall be the amount available for investment in the first year and previous year's end fund for rest of the years.
- 3 fund management charge should be based on the fund management charges applicable to specific funds options.
- 4 the type of additions such as bonus or loyalty addition to the fund.
- 5 for Single Premium / Limited premium payment term policies, amount available for investment column should be left blank from the applicable year.
- 6 through a document (the glossary for various terms of charges used) which should be handed over to the prospect/ policyholder
- 7 that rider charges are not taken into account in this illustration.

I,.....(Name), having received the information with respect to the above, have understood the above statement before entering into the contract.

Marketing officials' Signature:
Company Seal:

Policyholders' Signature:

Place:
Date:

[Handwritten Signature]
24/9/2017

Annexure - II

Assumptions		Year	Month	Age	Premium		Fund at Start	Death benefit	Mortality charge	Service tax	Rider charges	Fund before			Fund at End	Gross Yield		0.00
					Allocation	Charge						FMC		10.00%				
														7.33%				
Age	35 Years																	
Term	15 Years	1	1	35	10000	4000	6000.00	94.000	0.00	0.00	0.00	40.0	6,007.53	5.68	6,001.85			
PPT	15 Years	1	2	35	0	0	6,001.85	93.998	0.00	0.00	0.00	40.0	6,009.39	5.68	6,003.71			
Sex	Male	1	3	35	0	0	6,003.71	93.996	0.00	0.00	0.00	40.0	6,011.27	5.68	6,005.58			
Average Premium	10000 INR	1	4	35	0	0	6,005.58	87.989	0.00	0.00	0.00	40.0	6,013.15	5.68	6,007.47			
Sum Assured	100000 INR	1	5	35	0	0	6,007.47	87.985	0.00	0.00	0.00	40.0	6,015.06	5.68	6,009.37			
Mortality Charge	100% IALM(94-96) Ult	1	6	35	0	0	6,009.37	87.981	0.00	0.00	0.00	40.0	6,016.97	5.69	6,011.29			
Service tax	12.36%	1	7	35	0	0	6,011.29	87.977	0.00	0.00	0.00	40.0	6,018.90	5.69	6,013.21			
Inflation	5% p.a	1	8	35	0	0	6,013.21	87.974	0.00	0.00	0.00	40.0	6,020.85	5.69	6,015.16			
Inflation	0.407% p.m.	1	9	35	0	0	6,015.16	87.970	0.00	0.00	0.00	40.0	6,022.80	5.69	6,017.11			
Fund Growth Rate	10% p.a.	1	10	35	0	0	6,017.11	87.966	0.00	0.00	0.00	40.0	6,024.77	5.69	6,019.06			
Fund Growth Rate	0.83% p.m.	1	11	35	0	0	6,019.06	87.962	0.00	0.00	0.00	40.0	6,026.76	5.70	6,021.06			
FMC	1.140% p.a.	1	12	35	0	0	6,021.06	87.958	0.00	0.00	0.00	40.0	6,028.75	5.70	6,023.06			
FMC	0.095% p.m.	2	13	36	10000	1000	15,023.06	78.954	0.00	0.00	0.00	42.0	15,100.52	14.27	15,086.25			
Admin charge	40 INR p.m.	2	14	36	0	0	15,086.25	69.828	0.00	0.00	0.00	42.0	15,164.21	14.33	15,149.88			
Premium Allocation Charge		2	15	36	0	0	15,149.88	69.700	0.00	0.00	0.00	42.0	15,228.35	14.39	15,213.96			
year	Charge	2	16	36	0	0	15,213.96	69.572	0.00	0.00	0.00	42.0	15,292.94	14.45	15,278.49			
1	40%	2	17	36	0	0	15,278.49	69.443	0.00	0.00	0.00	42.0	15,357.99	14.51	15,343.47			
2	10%	2	18	36	0	0	15,343.47	69.313	0.00	0.00	0.00	42.0	15,423.49	14.58	15,408.91			
Thereafter	0%	2	19	36	0	0	15,408.91	69.182	0.00	0.00	0.00	42.0	15,489.45	14.64	15,474.81			
		15	180	49	0	0	274,847.18		0.00	0.00	0.00	79.2	276,959.02	261.75	276,697.27			

Note:-
 1 This above calculation sheet is for illustrative purpose and exhibits the application of principles stated in the circular
 2 Net yield may be calculated depending on mode of premium payment.

[Handwritten Signature]
 24/9/19