Guidelines on Universal Life Products

November 23 2010

The IRDA issued an order on 21st October 2010 to stop Insurers from selling Universal Life Products (ULPs). On the same day, the IRDA also issued the draft guidelines on ULPs, on which comments were invited from all Insurers, and thereafter published the final guidelines on ULPs on 23rd November 2010. The key features of these guidelines are as follows:

- ULPs shall be called 'Variable Insurance Products' (VIP). A VIP is defined as a non-linked life insurance product that provides (a) a death benefit equal to the guaranteed sum assured (at least 10 * annualised premium) + the balance in the policy account; and (b) a maturity benefit equal to the balance in the policy account + terminal bonus (if any).

- All VIPs are to be offered only on a non-unit linked platform, but shall have a corresponding policy account whose balance shall depict the accrual to the policyholder. The policy account is to be credited with premium net of all charges. Guaranteed interest rate (the minimum floor rate approved by the IRDA) and bonus (declared on a yearly basis only) shall apply to the balance in the policy account.

- A statement of the policy account is to be sent to the policyholder at least annually.

- VIPs shall provide only mortality cover and no contingency other than death is to be covered. No riders are allowed. VIPs cannot be offered as group products, but participating and non-participating options for VIPs have been specified.

- All VIPs must have a lock-in of 3 years. Minimum surrender benefits have been specified.

- Partial withdrawals and loans (subject to limitations) shall be allowed.

- The sum assured shall be flexible to change, subject to minimum sum assured norms approved by the IRDA under the F&U procedure. All changes effected to the sum assured shall apply from the subsequent policy anniversary. No single premium or limited premium options are allowed, but top-up premiums are allowed subject to the total top-up premium not exceeding the total regular premiums.

- The premium shall be depicted as (a) risk premium, (b) expenses, (c) commission, and (d) policy premium. The expenses and commission shall cumulatively not exceed the limits specified. If premium is not paid within the grace period the policy will become paid-up and may be revived within 12 months. Life cover will cease in the revival period.

- All existing products are to be re-filed with the IRDA in accordance with the guidelines.

For further information on this topic please contact Tuli & Co by telephone

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