Unit-Linked Insurance Product Guidelines

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The Indian insurance industry regulator (IRDA) has continued to issue guidance with respect to unit-linked insurance products (ULIPs). India operates a 'file and use' procedure for all life insurance products, meaning that products must be submitted to the IRDA before they can be sold to the general public. These rules have been in place since 2001, shortly after the liberalization of the Indian insurance market.

Previously, life insurers duly filed their products, including ULIPs, and began selling them to the general public. The products were successful, causing the IRDA to review how they were worded. The IRDA is obliged, among other things, to protect policyholders' interests. On December 21 2005 the IRDA issued its Guidelines for Unit-Linked Life Insurance Products, which were aimed at the closer regulation of ULIPs with a view to ensuring that they met the following minimum criteria:

- reasonable insurance cover linked to the premium paid over the policy term;
- an investment strategy attuned to the long-term nature of the cover;
- proper disclosure of the risks being assumed;
- the availability of the greater part of a targeted sum at the end;
- simple, user-friendly and transparent wordings; and
- a standardized method for calculating net asset value.

The guidelines required all existing products to be modified to meet these criteria no later than June 30 2006. Products which were already filed but not cleared were required to be re-filed taking these criteria into account. Products were redesigned with the guidelines in mind and since June 30 2006 only guideline-compliant ULIPs have been on sale.

In addition, on February 20 2007 the IRDA issued directions asking life insurers to modify the manner in which disclosures concerning unit-linked business were made in their annual accounts so as to improve the quality of disclosure. These changes became effective in March 2007.

On July 4 2007 the IRDA issued instructions for the file and use procedure for riders attached to all life policies, including ULIPs. The IRDA directed that life insurers seek specific approval to sell riders, whether attached to linked or non-linked products. Once cleared, a rider cannot be attached to any product other than that for which approval has been given, and neither its substance nor its name can be altered without prior approval.

In August 2007 the IRDA asked insurers to cease the sale of ULIPs which involved actuarial funded units. Insurers were notified in advance and made representations to the IRDA, which subsequently issued certain clarifications stating that: (i) there was technically nothing wrong with actuarial funded products, as they had all been approved by the IRDA via the file and use procedure; and (ii) there would be a phased removal of actuarial funded products and until then insurers could continue to sell them.

ULIPs appear to have attracted greater regulatory attention because of the general public's interest in buying them, but what is noteworthy is the degree of regulatory intervention that has occurred. For example, the 2005 guidelines (obliging life insurers to use standard wording for certain clauses) were introduced at the same time as the IRDA was debating the detariffication of general insurance wordings. This detariffication is expected in 2008 with regard to wording (rates were detariffed as of January 2007). It will be interesting to see whether similar interventions are made on the general insurance side.

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