

IRDA Update - Circular on ULIP fund approval procedure and NAV process

2 August 2011

By way of an update, the IRDA has issued the attached circular of 1st August 2011 on ULIP- Fund Approval Procedure and NAV Process.

Please note that this circular applies to all new funds as well as the existing funds offered under various products. Insurers need to file the required details with the IRDA on or before 30th September 2011 for all existing funds.

The NAV process specified in the circular under Annexure 2 needs to be complied with by Insurers in respect of existing and new funds from 1st October 2011.

Please see the attached.

For further information on this topic please contact Tuli & Co

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INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY

REF: IRDA/F&I/CIR/INV/173/08 /2011

Date: 29th July, 2011

To

The CEOs of Life Insurers

Sub: (1) ULIP - Fund Approval Procedure and (2) NAV Process – Reg.

1. The Authority, in the process of standardizing the procedure of File & Use applications for Unit linked Products of Life Insurers, to be consistent with IRDA (Investment) Regulations, 2000 as amended vide Notification F. No. IRDA/Reg./5/47/ 2008 dated 30th, July 2008, issued Circular: INV/CIR/020/2008-09, Dated: 11th Nov, 2008 to reflect the specific changes brought about in the amendments.
2. In connection with existing fund(s) offered in various products, the procedure mentioned in **Section-A in Annexure – 1 (Fund Approval Procedure - ULIPs)** of this Circular shall be adhered to and the Segregated Fund Identification Number (SFIN) with respect to such existing funds shall be filed with the Authority, on or before 30th Sep , 2011
3. If the product filed with IRDA as a part of File & Use, offers fund(s) that have already been approved by IRDA, the SFIN with respect to each such fund(s) shall be quoted along with the various investment categories in which 'each' such fund (identified by SFIN) would invest as provided in **FORMAT – 1**
4. All Life Insurers shall, from 1st Aug, 2011, get their new 'Fund(s)' approved by the Investment Department of IRDA. The procedure to be followed for getting the approval is listed in Section B of Annexure – 1. For **every** new product filed with IRDA as a part of File & Use, the Life Insurer shall in "duplicate" file with IRDA, the Certificate signed by the Appointed Actuary (AA), Chief Investment Officer (CIO) and Chief Financial Officer (CFO) detailed in Section B (2) of this Circular **along with** the various investment categories in which the Investments would be made as provided in **FORMAT – 2** of Annexure – 1
5. The NAV Process to be followed for new and existing funds, the procedure to operate 'each' Segregated Fund under ULIP from 1st Oct, 2011 is specified in **Annexure 2 (Guidelines on NAV Process)**. The Systems and Process to be in place for calculation of NAV for 'each' Segregated Fund, is laid down in Annexure – 2. The Concurrent Auditor of the Life Insurer shall issue a certificate to

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the effect that the automated Systems and Process are in place as mandated in the above Circular and the same shall be filed with IRDA on or before the **30th Sep, 2011**

6. This Circular shall be read along with Circular IRDA/ACTL/FUP/Ver2.0/DEC 2001 Dt. 12th Dec, 2001 as amended from time to time and other Circulars issued in so far NAV Process and Fund Approval are concerned



R K NAIR
MEMBER (F&I)



FUND APPROVAL PROCEDURE – ULIPs

The Authority, in the process of standardizing the procedure of File & Use applications for **Unit linked Products** of Life Insurers, to be consistent with IRDA (Investment) Regulations, 2000 as amended vide Notification F. No. IRDA/Reg./5/47/ 2008 dated 30th Jul, 2008, issued Circular: INV/CIR/020/2008-09, Dated: 11th Nov, 2008 to reflect the specific changes brought about in the amendments.

Reference is invited to the following Circulars:

- i. INV/CIR/020/2008-09 Dt. 11th Nov, 2008 – Anx 2 providing the '**exhaustive**' Investment Categories in which Life, Pension and Unit Linked Fund can invest.
- ii. IRDA/FA/02/10/2003-04 Dt. 29th Oct, 2003 on Transfer of Funds within ULIP funds

As different funds have been floated in different periods, the methodology to be adopted in streamlining the process is described in the following two sections

A. FUNDS FLOATED UPTO THE DATE OF ISSUE OF THIS CIRCULAR

All Insurers shall issue a Segregated Fund Identification Number (SFIN) for **all** Existing, Closed, Merged funds till the date of issue of this Circular. The SFIN shall be derived as per the following procedure:

No	Fund Category	Procedure for 'SFIN'
1	Unit Linked Individual Funds	<ULIF>+<001>+<dd/mm/yy>+<Fund Name>+<Reg.No>
2	Unit Linked Group Funds	<ULGF>+<001>+<dd/mm/yy>+<Fund Name>+<Reg.No>

Note: Explanation to '**Procedure for SFIN**'

- i. The 1st **four Character** of SFIN denote the Category to which the Fund belongs
- ii. **001** denote the 1st fund in the particular Category
- iii. **dd/mm/yy** refers to the date of launch of fund
- iv. **Fund Name** denotes the Name of the fund, which shall be abbreviated to 10 Characters
- v. **Reg. No** is the Registration Number of the Insurer

The Insurer shall file with the Authority, a statement of funds which are offered in various products by 30th Sep, 2011 providing the following particulars:

1. Fund Name:
2. SFIN No:

3. Investment details as per format given in **format 1**

The **Appointed Actuary (AA)**, **Chief Investment Officer (CIO)** and **Chief Financial Officer (CFO)** shall **confirm** that **ALL** the existing fund(s) comply with **ALL** points in **Point B (2)**. The Insure shall file a certificate issued to this effect by the Internal / Concurrent Auditor of the Insurer along with the concurrent audit report for the quarter ended 30th Sep, 2011

B. NEW FUNDS FLOATED

1. With effect from 1st Aug, 2011, all Life Insurers shall get their **New Fund** approved for compliance of IRDA (Investment) Regulations, 2000 as a part of 'file and use' procedure in respect of Unit Linked Products. In connection with the fund approval, the Insurer shall comply with the following:
 - i. As a part of file & use procedure, under **Section 8.1** of Form IRDA-Life-Linked-NP, the Insurer shall submit the 'Investment Policy' of each **segregated fund**. The Appointed Actuary shall, as a part of the product filing, **confirm** that the Investment policy **fully** complies with IRDA (Investment) Regulations, 2000 as amended from time to time.
 - ii. The Insurer shall derive the **SFIN** as per the procedure mentioned in **Point A** above, with respect to the '**segregated fund**' and shall **confirm** that the SFIN is unique and has not been allotted to any other Segregated fund.
 - iii. The insurers shall furnish the investment and other details as required in **format 2** for the new fund to be launched. If any "group of cat code head" as a permissible asset class (Circular: INV/CIR/020/2008-09, Dated: 11th Nov, 2008 – Anx 2.) is subsequently added / removed by the Authority, the insurer shall separately file the same for IRDA prior approval, for 'each' fund where the "group of cat code head" would be offered.
2. While filing the information mentioned in point # B (1) (iii), above the **Appointed Actuary (AA)** and **Chief Investment Officer (CIO)** and the **Chief Financial Officer (CFO)** shall **certify** the following:
 - i. The 'Segregated Fund', by whatever name called, would invest only in the '**exhaustive**' Categories of Investments permitted under Circular: INV/CIR/020/2008-09, Dated: 11th Nov, 2008 – Anx 2.
 - ii. The Investments to be made as per the Investment Policy [as specified in Section 8.1 of Form IRDA-Life-Linked-NP, of File & Use procedure] would be covered in the **Standard Operating Procedure (SOP)**, approved by the Investment Committee of the Insurer and

followed by the Investment Department of the Insurer, **before the launch of the fund**, if exiting SOP does not cover the new asset class, if any. The 'Segregated fund' would have identifiable, individual 'Scrips', grouped as per Circular: INV/CIR/020/2008-09, Dated: 11th Nov, 2008 – Anx 2, and the same would be identifiable at custodian level, by a separate sub code, for such 'Segregated Fund' effective from 1st Oct, 2011, for both existing and new fund(s)

- iii. No individual security is earmarked between two or more 'segregated fund'
 - iv. That the name of the Scheme / Fund is a NEW Scheme / Fund offered by the Insurer and is **NOT** a minor modification of its existing Scheme / Fund
 - v. Each 'Segregated Fund' would have a 'single' NAV, declared on a 'day-to-day' basis and uploaded in the Insurer's Public Domain and in the Life Insurance Council Website
 - vi. The 'Units' would be created on a '**day-to-day**' basis and would be backed by Investment assets, for the 'segregated fund'
 - vii. The Investment Trial Balance, in respect of each 'Segregated Fund' [with clear link to SFIN] is generated **through the system.**
 - viii. All prudential and Exposure norms as per Regulation 5 of IRDA (Investment) Regulations, 2000 amended from time to time will be complied at each 'segregated' fund, **as well as** at Assets under Management (AUM) of ULIP.
 - ix. Fund Management Charges (FMC) is identified with respect to each 'segregate fund' and **NOT** otherwise.
 - x. Transfer of funds, as stipulated under IRDA Circular No. IRDA/FA/02/10/2003-04 Dt. 29th Oct, 2003, between ULIP funds would be done during Market Hours, for Equity at the prevailing price and for Debt at previous day valuation / price. The Concurrent Auditor shall certify that the Insurer has the required automated System in place to ensure compliance of this requirement.
 - xi. The **SFIN** would be quoted in all 'Fund' related filing / disclosure. Also SFIN would be mentioned in all documents and all fund-wise information provided to policyholders, other users (public, distribution channels and others) and on all returns or fund related correspondence with the Authority
3. All records in this regard shall be made available for the inspection by IRDA at any point of time.

GUIDELINES ON 'NAV' PROCESS

SCOPE

The objective of defining the 'Net Asset Value (NAV) Process' for the ULIP Funds, is to standardise the process to be followed by all Life Insurers in arriving at the NAV per Unit. Every Insurer in computing and declaring the NAV shall follow the below mention procedure consistently with effect from 1st Oct, 2011

- A. Methodology of operating 'Segregated Fund'
- B. 'Units' creation / Redemption
- C. Preparation of Daily cash flow statement
- D. Security Master Creation
- E. Primary Market deals / IPO
- F. Secondary Market Debt / Equity deal authorization
- G. Settlement Process
- H. Banking Transaction
- I. Corporate Actions
- J. Valuation Process
- K. Charges
- L. NAV Computation

In this regard the Investment Committee (IC) of the Insurer shall amend the Standard Operating Procedure (SOP) to include clear internal guidelines, process flow charts, procedures and responsibilities to be followed by the Insurer. The following are the minimum set of guidelines to be issued in this regard:

A. METHODOLOGY OF OPERATING 'SEGREGATED FUND'

1. Clause 1(c) of Schedule II-A of Regulation 4 of IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 defines 'Segregated Funds' as 'Funds earmarked in respect of Linked Business'.
2. To comply with the above requirements of 'Segregated Fund', the Insurer shall adopt the following procedure to ensure strict segregation of funds and computation of NAV:
 - a. The Insurer shall, shall open separate bank account and account with the Custodian for **each** "segregated fund".
 - b. The Bank shall be directed to allot an Account Number/Account Name with specific reference to the particular "Segregated Fund" so as to match the 10 digit fund name of the **SFIN**.

- c. Every Purchase, Sale of Investment, Income on Investment (including Corporate Action) shall be identified with reference to the particular 'Segregated Fund' and accounted for.
- d. Every 'Deal Slip' shall be identified with reference to the 'segregated fund' along with 'Segregated Fund Identification Number "SFIN" for such Segregated Fund(s) and the respective 'sub-code' of Custodian and the respective Bank Account.

B. UNITS CREATION / REDEMPTION

Unit capital movement tracks the capital movement (subscription and redemption) in the funds and requires reconciliation with Policy Admin System (PAS), which requires

- a. Daily Report of 'Subscription & Redemptions' received from the Policy Admin System (PAS) to be uploaded [without manual intervention through process integration] in the Investment Accounting System
- b. Unit Report shall be reconciled with the Investment Accounting System's Creation / Redemption Report, after booking of unit capital entries
- c. Units created on a '**day-to-day**' basis (including switches), shall be backed by 'segregated fund wise' Investment assets. In other words, the value / amount for which Units are created for the particular day (at the prevailing NAV, applicable for the day, of the respective fund), should be equivalent to the premium receipt (net of switches) less applicable charges and other outflows such as benefits paid, surrenders and foreclosures in excluding applicable charges of the 'respective segregated fund'.

C. PREPARATION OF DAILY CASH FLOW STATEMENT

The insurer shall prepare a cash flow statement for each 'Segregated Fund' on a day-to-day basis to ascertain the 'investible funds'. The preparation of the cash flow statement shall take into account the following:

1. Opening Bank balance at the Start of the Day (Closing Balance of the Previous Day)
2. Receipt on account of Sale of Investments
3. Receipt on account of Redemption of investment or Maturity of investments (Gross)
4. Receipt of Interest or Dividend etc.,
5. Payments on account of purchase of Security
6. Payments on account of Application Money
7. Premiums received net of charges and redemptions
8. Any other receipts or payments pertaining to investments

D. SECURITY MASTER CREATION

1. Equity Investments

Based on the inputs from treasury the investment back-office shall create Security Masters in the system (linked via NSE/BSE codes) and the same shall be validated by the Mid-Office. The procedure includes documentation of supporting and supervisory sign off

2. Debt Investments

Security masters for debt Instruments are prepared on the basis of Information memorandum in case of primary and secondary market deals by the Back Office. The procedure includes documentation of supporting and supervisory sign off.

E. PRIMARY MARKET DEALS/IPO

1. Booking of Primary Market Deals - Debt

Primary Market Deals shall be booked on the date of application and on the date of allotment the Securities will be reflected in the Investment Accounts

2. Booking of Equity IPO

Equity Investments shall be accounted on the date of application for IPO Issue as 'Application Money' at the segregate Fund Level and on the date of allotment the allotted Shares shall be reflected in the Investment accounts in the same proportion of application money.

F. SECONDARY MARKET DEBT / EQUITY DEAL AUTHORIZATION

1. Debt Deals

All Debt securities as categorised in IRDA/GLN/001/2003-04 – Categories of Investments, as amended from time to time, shall be executed with counterparties and reported on NSE / BSE / FIMMDA reporting platform and the same shall be confirmed with counterparties. The deals shall be authorised in the investment system and the trade files / information shall be sent to custodian / other online settlement systems as recognised by any financial regulator for settlement.

2. Equity Deals

a. STP (Straight Through Process) Reconciliation:

All Secondary Market equity deals shall be put through the STP module in the investment system. The dealer shall put through the deal in the investment system after concluding the transaction. The deal would then flow to the back office which would be compared with the

input details and the STP file received from broker. If all details match, the transaction would be authorised in the system for settlement.

b. Custodian /Broker settlement:

After STP reconciliation the equity trade files ISO files shall be sent to custodian and broker houses through STP.

3. All deals shall be recorded on trade date accounting basis.

G. SETTLEMENT PROCESS

1. Equity (Sale) - (as per Exchange Compliance Norms, Currently T+2)

Bank settlement (trade receivables) entries shall be passed for trades settling on current day.

2. Equity (Purchase) - (as per Exchange Compliance Norms, Currently T+1)

Bank settlement (trade payables) entries shall be passed for trades settling on current day. It may also be settled on T+2 basis, if the company had deposited margin money with the exchanges as required for equity settlement.

3. Debt (purchase/Sale) - (as per Exchange Compliance Norms, Currently T+1)

Bank settlement (trade payables/receivables) entries shall be passed for trades settling on current day. Corporate Debt deals dealt on T+0 basis shall be settled on T+0 basis.

4. Money market transactions - (as per Exchange Compliance Norms, Currently T+1)

Bank settlement (trade payables/receivables) entries shall be passed for trades settling on current day. Money market transactions excluding treasury bills could also be dealt and settled on T+0 basis.

5. Reverse Repo withdrawal

Reverse Repo maturities shall be posted in bank accounts

6. Brokerage Payments

Brokerage Payment shall be settled in Bank

H. BANKING TRANSACTIONS

1. Coupon Payments for Debt Investments

Interest receipt entries shall be passed in Bank (Reconciled with Custodian Corporate Actions Report / other online settlement systems as recognised by any financial regulator)

2. Redemptions/Maturities for Debt Investments

Redemptions/Maturity receipt entries shall be passed in bank account (Reconciled with Custody Corporate Actions report).

3. Dividend Receipts for Equity Investments

Dividend receivables shall be received in bank on the receipt date (Reconciled with Corporate Action Report received from the Custodian or other online settlement systems as recognised by any financial regulator)

4. Management Fees

Payment entries pertaining to Management fee transfer to Non-Linked Funds shall be passed in Bank accounts on respective payment dates.

5. Booking of Application Money

Application Money shall be booked in current asset account on the date of payment of application money towards prospective investments.

I. CORPORATE ACTIONS

1. **Equity:**

The insurer shall obtain details of corporate action from exchange(s) on which the stock is listed or custodian or any service provider who disseminates such information. While the information pertaining to corporate actions may be obtained from any service provider, it may be noted that it is duty of the insurer to have adequate internal controls in place to ensure that all corporate actions are duly acted upon.

2. **Debt:**

The insurer shall configure their Investment System for details of interest receivable and redemption dates. Further, details of interest receivable and redemption can also be obtained from the custodian / other online settlement systems as recognised by any financial regulator.

3. Accounting of coupon payments, redemption / maturities for debt investments shall be automatically triggered by the system, based on the interest payment dates and maturity dates defined in the security masters created for 'each' security.

J. VALUATION PROCESS

1. Valuation of securities shall be in line with the INV/CIR/020/2008-09 – Point. G – Statement of Investment Reconciliation - Annexure 2.
2. The Insurer shall close the Investment Front Office system for transactions at 6.00 PM. The Concurrent Auditor shall confirm the compliance of this requirement in their quarterly report to the Board of Directors
3. The guiding principle shall be to follow, for all instruments, the day-to-day valuation matrix published by FIMMDA and where ever FIMMDA does not provide such valuation matrix on a day to day basis, the Insurer may adopt valuation matrix provided by any SEBI registered Rating Agency, till such time FIMMDA comes out with such valuation matrix and provides the same in the technology platform, as mandated by the Authority in eliminating manual intervention. The Concurrent Auditor shall certify in his Audit Report to the Board that the Insurer had consistently adopted the methodology prescribed above during the audit period.

K. CHARGES

1. Fund Management Charges

Fund Management Charges (FMC) including service tax shall be 'accounted' for on a day-to-day basis in the investment accounting system. The actual transfer to "UL-Non-Unit Reserve" account of accumulated FMC shall be done at least monthly.

2. Dealing costs

Dealing costs securities transaction tax and service tax shall be adjusted in the cost of investments.

L. NAV COMPUTATION

1. **NAV:** The NAV of the Segregated **FUND** [SFIN] shall be computed as:

Market Value of investment held by the fund + Value of Current Assets – Value of Current Liabilities
& Provisions, if any

Number of Units existing on Valuation Date (before creation / redemption of Units)

2. The NAV computed as above, in respect of 'each' Segregated Fund, shall be Audited by the Concurrent Auditor on a day-to-day basis.

3. The NAV calculated as above, in respect of 'each' Segregated fund, shall be declared on the Insurer's Website and at the **Life Insurers Council** Website, as and when the same is ready.

Note:

- a. *Market value of investment, held by the fund shall be as explained above in the valuation of investments section and the same netted off for FMC*
- b. *Value of Current Assets represents Accrued interest, Dividend Receivable, Bank Balance, Receivable for Sale of Investments and Other Current Assets (for Investments)*
- c. *Value of current liabilities represents Payable for Investments*
- d. *Number of units derived from the investment accounting system shall be reconciled on a day to day basis with the policy admin system*
- e. *Provisions shall include expenses for brokerage and transaction cost, NPA, Fund Management Charges (FMC) and any other charges approved by the Authority.*
- f. *In supersession of earlier provisions issued vide Circular No. 24/IRDA/ACTL/2009-10 Dt. 5th Aug, 2009 with respect to calculation of NAV, the NAV shall, henceforth, be computed without appropriation / expropriation price as required under the said Circular under Unit Pricing Methodology. The same shall be applicable for all existing policies effective 1st April, 2011.*

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