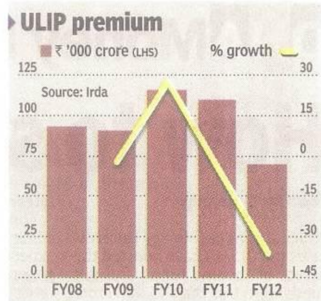

On Ulips, Irda mandates monthly disclosures

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Mumbai: Life insurers will now have to inform unit linked insurance plan (Ulip) customers of the reduction in yield on a monthly basis.

Reduction in yield – the difference between gross and net yields (expressed in %) – refers to the lowering of investment growth within a fund on account of the various charges. The net yield can be arrived at after deducting all prescribed charges from the gross yield.

As such, insurers must also issue annual certificates detailing the contributions, charges and taxes deducted from the fund value, and the final payments made, according to the new guidelines on linked plans notified by the Insurance Regulatory and Development Authority (Irda).

Typically, the burden of charges on a policyholder reduces as the tenure increases.

The regulator has capped the reduction in yield at 4% for policies with five-year tenure, 3% for 10-year tenure and 2.25% for more than 15 years. In case the limit is not adhered to, insurers will have to add more units to the policyholder's account and maintain the fund value at the prescribed limit.

"Currently, most insurers are not adhering to any limit and they inform customers about the reduction only at the time of maturity. The measures will help curb this practice and bring in some uniformity in reduction," said a senior Irda official.

Insurers, though, are jittery.

"IT systems of insurers are not designed to generate monthly certificates of reduction in yield of individual customers. This will create practical difficulty," said Rajeev Kumar, chief actuary, Bharti Axa Life Insurance.

Variable plans under linked category

Insurers can now offer variable insurance plans (VIPs) – where the benefits are dependent on the performance of the approved index linked to the product – on the linked platform too.

Insurers will need to offer a non-negative guaranteed return here, Irda has said. "The death benefit offered under VIP will include sum assured mentioned in the policy document, along with balance in the policy account."

The way this works, each policyholder will have a separately managed (shadow) account, reflecting the premium paid by the policyholder as well as the interest gained from the particular index to which the fund is linked.

Insurers need to keep a separate account of all receipts and payments for the product. "The policy account value of each product shall be disclosed on a daily basis through a specifically assigned identification number," Irda said.