



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

Date: 7th Oct, 2011

REF: IRDA/FI/CIR/INV/234/10/2011

CIRCULAR

CLARIFICATIONS ON FUND APPROVAL PROCEDURE AND GUIDELINES ON NAV PROCESS

Please refer to Circular No. IRDA/F&I/CIR/INV/173/08/2011 dated 29th Jul, 2011 on ULIP – Fund Approval Procedure and Guidelines on NAV Process, based on representations of Insurers; the Authority hereby clarifies as under:

1. "No individual security is earmarked between two or more 'segregated fund'"

Where insurers are holding Bank Fixed Deposits (FD), subject to compliance of Section 27A (9) of Insurance Act, 1938 which represent investments of more than one Segregated fund [SFIN], for which the logical segregation is clearly maintained in the Investment accounting system, the Insurer may continue to hold such FDs till their maturity. The FDs placed from the date of this clarification shall be identified with respect to each segregated fund [SFIN], but the exposure compliance for such FDs placed in a single Bank, the purpose of Section 27A (9) shall be at the aggregate of all Segregated Funds taken together.

The insure in such case, shall file with IRDA a statement of FDs, which are allocated across various SFINs at 30th September 2011 certified by Internal / Concurrent Auditor. The statement should also state maturity dates for each of these FDs. All fresh investments in FD's should be in compliance with the provisions of the Circular in subject.

2. Specifying SFIN in short message services (SMS), tele-callings, radio messages and ATM display

It is clarified that, SFIN need not be displayed in fund related communication through SMS, tele-calling, radio messages and ATM display due to technology limitations. It would be full compliance of IRDA's direction, if Insurers specify SFIN in all documents and all fund-wise information provided to policyholders and other users.

3. Segregated funds having multiple plans, with different FMCs attached to it or running 'funds of funds' structure

As each 'Segregated Fund' is required to have a 'single' NAV, declared on a 'day-to-day' basis and FMC is required to be identified to each segregated fund, all Insurers are required to convert various plans offered below a fund or funds of funds structure, as individual segregated fund with a SFIN with identified 'scrips' representing the investments of such segregated funds. In doing so, the net asset value (NAV) of each plan shall be segregated from the underlying fund. The Internal / Concurrent Auditor shall certify that such segregation had not resulted in enrichment of one set of policyholders from others due to change in the units or the NAV. The implication, to the policyholder of such change, if any, shall be put on the insurer's website,

Page 1 of 3

along with the rationale of making such change. The concurrent Auditor shall confirm the Insurer's adherence to these requirements.

In case of funds, which are of un-economical size to operate, from the perspective of Investment management, in segregating investments across funds, the Insurer shall provide a free switch to the policyholder to shift from such funds to other funds, which have the same fund objective and same or lower rate of FMC. The Insurer shall send a communication to all individual policyholder who would be impacted by such switch, specifying that if he/she does not opt for such switch to other fund(s) that are offered within 30th Nov, 2011, the Insurer shall mandatorily switch such policyholder to such other fund being offered having the same fund objective and same or lower FMC. The Insurer shall, after such switch, provide the details, rationale and implication of such change, as confirmed by the Internal / Concurrent Auditor on the insurer's web site and to the impacted policyholders.

As the above requirements have implication on configuring the Investment Application, opening Bank Accounts and operating Segregated Fund wise sub-codes at Custodian level, the Insurers have requested IRDA to extend the timeline for all system enhancements arising out of the circular and complying with requirements of single NAV and single FMC per segregated fund up to 31st Dec, 2011. Considering the difficulty expressed by Insurers, the Authority would permit Insurers to comply with the timelines for adoption of the above stated guidelines in a **fully automated manner** (at Insurer's location) by **31st Dec, 2011** and **at Custodian level by 15th Jan, 2012**. Till such time, all requirements of these guidelines shall up to Custodian level be requires to be executed manually on a day to day basis. Further, fund structures with plans under funds or fund of fund structures need to be split into Segregated Linked Funds by 31st Dec, 2011.

4. Assigning SFIN for 'new' funds launched

The Authority had mandated to specify the date of launch for each **new** Segregated Fund in the File & Use procedure. In this connection it is clarified that the date refers to the date on which such product is filed with IRDA.

5. Publication of information on Appropriation / Expropriation

IRDA vide email dated August 26, 2011 mandated Insurance Companies to issue an advertisement, once, mentioning the change brought by IRDA's directive in a National Newspaper, in a leading Hindi daily and in a regional daily. As life insurance council, had written to Authority vide letter dated September 16, 2011 that it would do the same on behalf of the Industry, it is clarified that such a compliance would be a good compliance.

6. Operating CSGL / CBLO Account

As RBI, do not permit Banks to open multiple CSGL / SGL accounts against single entity the Insurers are permitted to operate with a single CSGL /SGL Account and allocate the holdings in their books to each

Sh. S

Segregated Fund [SFIN]. All insurers are required to reconcile their Government Securities holding across all segregated funds on a day to day basis.

Similarly as CCIL permits opening only one CBLO Account for every company, the Insurers are hereby permitted to have a common CBLO Account at company level, and reconcile their holdings in CBLO, segregated fund wise, on a day to day basis.

The Internal / Concurrent Auditor, in his Audit Report to the Audit Committee of the Insurer's Board shall confirm that the Insurer had done the reconciliation of G Sec and CBLO holding, segregated fund wise [SFIN] on a day-to-day basis.

7. Usage of valuation matrix published by FIMMDA

As FIMMDA vide its e-mail Dt. 7th Apr, 2011 to IRDA, had had sought time to respond on issues relating to using valuation matrix published by it on a day-to-day basis, it is clarified that the Insurers may value Investments either as per FIMMDA or at applicable market yield rates published by any SEBI Approved Rating Agency providing the same on periodic basis.


R K NAIR
MEMBER (F&I)

