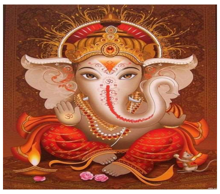

CASE STUDY-NOV 41- UNIT LINK INSURANCE PLAN

QUESTION: *Balaram purchased a Unit Linked Insurance Policy on 1st March 2015 from ABC Insurance Company. The policy includes both term insurance coverage and estimated investment returns. He took the policy for tax deduction purpose under Sec. 80C of the Income Tax Act, 1961.*

In January 2017, his financial advisor suggested him an annuity plan which comes under Sec. 80CCC of the Income Tax Act, 1961. Balaram is totally convinced with the annuity plan and wants to discontinue the Unit Linked Insurance Policy as paying premiums for both the plans is difficult for him.

He approached the insurance company to claim the fund value from the premiums he had paid from March 2015 to January 2017.

(i) Can he get the fund value immediately? Justify the answer with the latest ULIP regulations of IRDA.

(ii) If he revives the policy within two years, can he get the fund value?

APPLICABLE PROVISIONS

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA (UNIT LINKED INSURANCE PRODUCTS) REGULATIONS, 2019

REGULATION 7- MINIMUM POLICY TERM:

a) For individual Unit linked insurance products shall be at least five years.

b) For group Unit Linked insurance products shall be at least one year. The group products may be renewed every year.

REGULATION 8- PREMIUM PAYMENT TERM: *Irrespective of the policy term, all individual Unit Linked insurance products, shall have the minimum features as stated below:*

- *i) Except for single premium payment policy, the premium paying term for all other individual policies shall not be less than 5 years.*
- *ii) Insurers may design products which offer a range of premium paying terms and policy terms within a product, subject to (i) above.*

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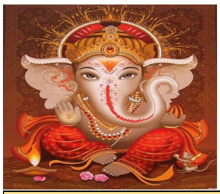

iii) *Insurers may extend an option to the policyholder to alter the premium payment term or policy term provided that such alteration is in accordance with their Board approved underwriting policy, subject to (i) above.*

DISCONTINUANCE TERMS

REGULATION 10-DISCONTINUANCE OF THE POLICY DURING LOCK-IN PERIOD:

a) For other than single premium policies, upon expiry of the grace period, in case of discontinuance of policy due to non-payment of premium, the fund value after deducting the applicable discontinuance charges, shall be credited to the discontinued policy fund and the risk cover and rider cover, if any, shall cease.

b) Such discontinuance charges shall not exceed the charges, stipulated in Regulation 27 (e) under these Regulations. All such discontinued policies shall be provided a revival period of three years from date of first unpaid premium. On such discontinuance, Insurer shall communicate the status of the policy, within three months of the first unpaid premium, to the policyholder and provide the option to revive the policy within the revival period of three years.

i) *In case the policyholder opts to revive but does not revive the policy during the revival period, the proceeds of the discontinued policy fund shall be paid to the policyholder at the end of the revival period or lock-in period whichever is later. In respect of revival period ending after lock-in period, the policy will remain in discontinuance fund till the end of revival period. The Fund management charges of discontinued fund will be applicable during this period and no other charges will be applied.*

ii) *In case the policyholder does not exercise the option as set out above, the policy shall continue without any risk cover and rider cover, if any, and the policy fund shall remain invested in the discontinuance fund. At the end of the lock-in period, the proceeds of the discontinuance fund shall be paid to the policyholder and the policy shall terminate.*

iii) *However, the policyholder has an option to surrender the policy anytime and proceeds of the discontinued policy shall be payable at the end of lock-in period or date of surrender whichever is later.*

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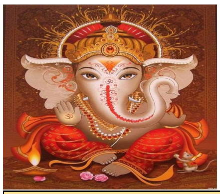

c) In case of Single premium policies, the policyholder has an option to surrender any time during the lock-in period. Upon receipt of request for surrender, the fund value, after deducting the applicable discontinuance charges, shall be credited to the discontinued policy fund.

i) Such discontinuance charges shall not exceed the charges stipulated in Regulation 27 (e) under these Regulations.

ii) The policy shall continue to be invested in the discontinued policy fund and the proceeds from the discontinuance fund shall be paid at the end of lock-in period. Only fund management charge can be deducted from this fund during this period. Further, no risk cover shall be available on such policy during the discontinuance period. Explanation: "Proceeds of the discontinued policies" means the fund value as on the date the policy was discontinued, after addition of interest computed at the interest rate stipulated in Regulation 13 under these Regulations.

REGULATION 14- DISCONTINUANCE OF POLICY AFTER THE LOCK-IN-PERIOD:

a) For other than Single Premium Policies:

i) Upon expiry of the grace period, in case of discontinuance of policy due to non-payment of premium after lock-in period, the policy shall be converted into a reduced paid-up policy with the paid-up sum assured i.e., original sum assured multiplied by the total number of premiums paid to the original number of premiums payable as per the terms and conditions of the policy. The policy shall continue to be in reduced paid-up status without rider cover, if any. All charges as per terms and conditions of the policy may be deducted during the revival period. However, the mortality charges shall be deducted based on the reduced paid-up sum assured only.

ii) On such discontinuance, Insurer shall communicate the status of the policy, within three months of the first unpaid premium, to the policyholder and provide the following options: (1) To revive the policy within the revival period of three years, or (2) Complete withdrawal of the policy.

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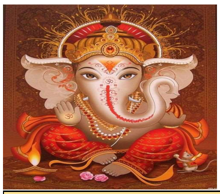

iii) In case the policyholder opts for (1) of Regulation 14(a)(ii) under these Regulations above but does not revive the policy during the revival period, the fund value shall be paid to the policyholder at the end of the revival period.

iv) In case the policyholder does not exercise any option as set out above, the policy shall continue to be in reduced paid up status. At the end of the revival period the proceeds of the policy fund shall be paid to the policyholder and the policy shall terminate.

v) However, the policyholder has an option to surrender the policy anytime and proceeds of the policy fund shall be payable.

b) In case of Single Premium Policies, the policyholder has an option to surrender the policy any time. Upon receipt of request for surrender, the fund value as on date of surrender shall be payable.

FAQ ON UNIT LINK INSURANCE PLAN

1. What is a ULIP?

ULIP is an abbreviation for Unit Linked Insurance Policy. A ULIP is a life insurance policy which provides a combination of risk cover and investment. The dynamics of the capital market have a direct bearing on the performance of the ULIPs.

PLEASE NOTE THAT: IN A UNIT LINKED POLICY, THE INVESTMENT RISK IS GENERALLY BORNE BY THE INVESTOR.

2. What is a Unit Fund?

The allocated (invested) portions of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund.

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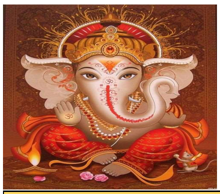

3. What is a Unit?

It is a component of the Fund in a Unit Linked Policy.

*4. **What Types of Funds do ULIP Offer?***

Most insurers offer a wide range of funds to suit one's investment objectives, risk profile and time horizons. Different funds have different risk profiles. The potential for returns also varies from fund to fund.

The following are some of the common types of funds available along with an indication of their risk characteristics.

General Description	Nature of Investments	Risk Category
Equity Funds	Primarily invested in company stocks with the general aim of capital appreciation.	Medium to High Risk
Income, Fixed Interest and Bond Funds	Invested in corporate bonds, government securities and other fixed income instruments.	Medium
Cash Funds	Sometimes known as Money Market Funds — invested in cash, bank deposits and money market instruments.	Low
Balance Funds	Combining equity investment with fixed interest instruments.	Medium

*5. **Are Investment Returns Guaranteed in a ULIP?***

Investment returns from ULIP may not be guaranteed." In unit linked products/policies, the investment risk in investment portfolio is borne by the policy holder". Depending upon the performance of the unit linked fund(s) chosen; the policy holder may achieve gains or losses on his/her investments.

PLEASE NOTE THAT: IT SHOULD ALSO BE NOTED THAT THE PAST RETURNS OF A FUND ARE NOT NECESSARILY INDICATIVE OF THE FUTURE PERFORMANCE OF THE FUND.

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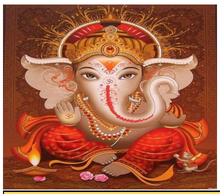

6. ***What are the Charges, fees and deductions in a ULIP?***

ULIPs offered by different insurers have varying charge structures. Broadly, the different types of fees and charges are given below. However, it may be noted that insurers have the right to revise fees and charges over a period of time.

i) ***Premium Allocation Charge:*** *This is a percentage of the premium appropriated towards charges before allocating the units under the policy. This charge normally includes initial and renewal expenses apart from commission expenses.*

ii) ***Mortality Charges****: These are charges to provide for the cost of insurance coverage under the plan. Mortality charges depend on number of factors such as age, amount of coverage, state of health etc.*

iii) ***Fund Management Fees:*** *These are fees levied for management of the fund(s) and are deducted before arriving at the Net Asset Value (NAV).*

iv) ***Policy/ Administration Charges****: These are the fees for administration of the plan and levied by cancellation of units. This could be flat throughout the policy term or vary at a pre-determined rate.*

v) ***Surrender Charges****: A surrender charge may be deducted for premature partial or full encashment of units wherever applicable, as mentioned in the policy conditions.*

vi) ***Fund Switching Charge****: Generally, a limited number of fund switches may be allowed each year without charge, with subsequent switches, subject to a charge.*

vii) ***GST Deductions:*** *Before allotment of the units the applicable GST is deducted from the risk portion of the premium. Investors may note that the portion of the premium after deducting for all charges and premium for risk cover is utilized for purchasing units.*

7. ***What should one verify before signing the proposal?***

One has to verify the approved sales brochure for

- *all the charges deductible under the policy*
- *payment on premature surrender*
- *features and benefits*
- *limitations and exclusions*
- *lapsation and its consequences*
- *other disclosures*

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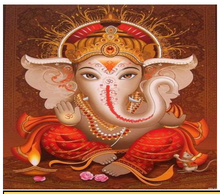

• Illustration projecting benefits payable in two scenarios of 6% and 10% returns as prescribed by the life insurance council.

8. **How much of the premium is used to purchase units**?
The full amount of premium paid is not allocated to purchase units. Insurers allot units on the portion of the premium remaining after providing for various charges, fees and deductions. However, the quantum of premium used to purchase units varies from product to product. The total monetary value of the units allocated is invariably less than the amount of premium paid because the charges are first deducted from the premium collected and the remaining amount is used for allocating units.

9. Can one seek refund of premiums if not satisfied with the policy, after purchasing it?
The policyholder can seek refund of premiums if he disagrees with the terms and conditions of the policy, within 15 days of receipt of the policy document (Free Look period). The policyholder shall be refunded the fund value including charges levied through cancellation of units subject to deduction of expenses towards medical examination, stamp duty and proportionate risk premium for the period of cover.

10. What is Net Asset Value (NAV)?
NAV is the value of each unit of the fund on a given day. The NAV of each fund is displayed on the website of the respective insurers.

11. What is the benefit payable in the event of risk occurring during the term of the policy? The Sum Assured and/or value of the fund units is normally payable to the beneficiaries in the event of risk to the life assured during the term as per the policy conditions.

12. What is the benefit payable on the maturity of the policy?
The value of the fund units with bonuses, if any is payable on maturity of the policy.

13. Is it possible to invest additional contribution above the regular premium?
Yes, one can invest additional contribution over and above the regular premiums as per their choice subject to the feature being available in the product. This facility is known as "TOP UP" facility.

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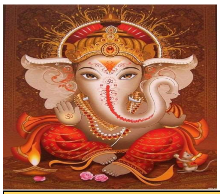

14. Whether one can switch the investment fund after taking a ULIP policy?

Yes. "SWITCH" option provides for shifting the investments in a policy from one fund to another provided the feature is available in the product. While a specified number of switches are generally effected free of cost, a fee is charged for switches made beyond the specified number.

15. Can a partial encashment/withdrawal be made?

Yes, Products may have the "Partial Withdrawal" option which facilitates withdrawal of a portion of the investment in the policy. This is done through cancellation of a part of units.

16. What happens if payment of premiums is discontinued?

a) Discontinuance within three years of commencement – If all the premiums have not been paid for at least three consecutive years from inception, the insurance cover shall cease immediately. Insurers may give an opportunity for revival within the period allowed; if the policy is not revived within that period, surrender value shall be paid at the end of third policy anniversary or at the end of the period allowed for revival, whichever is later.

b) Discontinuance after three years of commencement -- At the end of the period allowed for revival, the contract shall be terminated by paying the surrender value. The insurer may offer to continue the insurance cover, if so opted for by the policy holder, levying appropriate charges until the fund value is not less than one full year's premium. When the fund value reaches an amount equivalent to one full year's premium, the contract shall be terminated by paying the fund value.

17. What information related to investments is provided by the Insurer to the policyholder?

The Insurers are obliged to send an annual report, covering the fund performance during previous financial year in relation to the economic scenario, market developments etc. which should include fund performance analysis, investment portfolio of the fund, investment strategies and risk control measures adopted.

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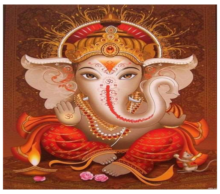

ANSWER:

i) *No, Mr. Balaram cannot get the fund value immediately because there is a lock in period of 5 years under a ULIP Policy from the commencement of the policy, during which the investments cannot be withdrawn. Mr. Balaram has taken the ULIP policy on 1st March 2015 and wants to discontinue the ULIP policy in January 2017 i.e., before 5 years from the commencement of the policy, he will not be entitled for fund value.*

ii) *No, he cannot get the fund value even if he revives the policy within 2 years. As per IRDA Regulations, the funds are moved from active ULIP fund to Discontinuance fund and remains the discontinuance fund till the completion of the 2-year period given for the customer for exercising the option of revival. In short, no benefit can be paid to the policy holder under ULIPs till completion of 5 years.*

DISCLAIMER: *the case study presented here is only for sharing information with readers. In case of necessity do consult with professionals.*

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