

29th October, 2003

ALL LIFE INSURERS

RE.: TRANSFER OF FUNDS BY THE LIFE INSURANCE COMPANIES

The Authority vide its Circular dated 29th April, 2003, under point (5) of the said Circular pertaining to “Transfer of securities to the policy holders’ account” advised all life insurers as under:

“All securities are required to be transferred to the policy holders Account at market price or cost price, whichever is lower.

In respect of debt securities, the transfers are to be carried out at the net amortized cost”.

However, some life insurers have approached the Authority, seeking a review of the said guidelines. In this regard, clarifications are issued herewith, which are mandatory, for compliance by all life insurers. Broadly, the transfer of assets (Investments) can be categorized into the following:

(I) ***Transfer from the shareholders’ account to the policyholders’ account:***

This relates to transfer of investments pursuant to transfer of funds from the Shareholders’ account to the policyholders’ account to meet the Deficit in the Policyholders’ account in a given financial year. Transfers of investments made with the objective of meeting the deficit in the policyholders’ account, as and when made, should be as per the conservative approach, i.e., at the cost price or market price, whichever is lower. In case of debt securities, all transfers are to be carried out at the net amortized cost. This is the approach indicated in the Circular dated 29th April, 2003, and it should be strictly adhered to.

(II) ***Transfer between policyholders’ funds:***

No transfer of assets (investments) between different policyholders’ funds shall be allowed.

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(III) *Purchase / Sale transactions between unit linked funds:*

Insurers may like to consider sale/purchase transactions between unit linked funds as part of investment management strategy, to limit transactions cost and also arising out of options exercised by the policyholders to shift between different unit linked funds. The sale/purchase of investments under such circumstances would be based on the market price of the investments, which are being shifted between unit-linked schemes.

(IV) *Funds of Non-linked business:*

It is reiterated that no sale/purchase is permitted between the various policyholders' funds under the non-linked business.

(V) *Small sized fund:*

In the initial stages of the new insurance companies, funds are likely to build up gradually, and insurers may face problems with regard to purchase of securities because of stipulations of minimum market lot. To tide over such difficulties, in the initial years, security sale at market price shall be permitted from the shareholders' assets, that too only in the approved category, to meet the needs of investments of policyholders' funds.

Such transactions shall be permitted only where a policyholders' fund size is small, i.e., up to Rs.50 crore.

With a view to ensuring an audit trail on such transaction, it is mandatory that such transactions be subject to compliance of the following:

1. Authorization of the Investment Committee giving the reason for such sale transaction to the policy holders' funds
2. Disclosure in the financial statements/returns
3. Audit by the statutory auditors
4. The limit of Rs.50 crore being subject to the review by the Authority.

In any sale/ purchase between different funds, it should be ensured that the policyholders' interests are not jeopardized.

All life insurers are advised to strictly adhere to the above.

(C. S. RAO)
CHAIRMAN