



Date: 28th December, 2004

REF: INV/CIR/058/2004-05

CIRCULAR

OUTSOURCING OF INVESTMENT FUNCTION – LIFE INSURERS

This is further to the previous Circular INV/CIR/031/2004-05 dated: 27th July, 2004, on the above subject. The Authority has received representations from Insurance Companies, that in the context of growth in Unit Linked Life Insurance Business, whereunder specialist skill and expertise is essential, with regard to compilation of up-to-date data and calculation of Net Asset Value (NAV) under Unit Linked Insurance Products (ULIP). The Insurance companies also represented that there are considerable advantages in outsourcing the function of calculation of NAV under Unit Linked Insurance Policies, specially in the case of companies with fund size which is small and the calculation of NAV in house would require large investment in acquisition of hardware and software and which will be underutilized. So, they requested that the Insurers be allowed to outsource Custodial services and calculation of NAV under ULIP.

2. It is hereby clarified that the circular dated 27th July, 2003 did not contemplate prohibition of outsourcing of custodial services. Insurance companies are hereby informed that they can outsource custodial services.

3. Keeping in view the representations by the new private insurance companies regarding the function of calculation of NAV under ULIP, the Authority hereby permits outsourcing of calculation of NAV provided that the service provider:

1. Is a regulated custodial service provider with experience and expertise in NAV computation.
2. Is not part of a 'Group' as defined under Regulation 2 (ca) of IRDA (Investment) Regulations, 2000 as amended from time to time and Guidelines issued thereunder.
3. Complies with all consumer laws and regulations.
4. Maintains confidentiality and protects data from intentional or inadvertent disclosure to unauthorised persons.

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5. Has a comprehensive and effective system for disaster recovery and periodic testing of backup facilities.
 6. Has an adequate system to address all Operational Risks arising out of technology, errors and frauds.
 7. Provides full access to all records and other material to the IRDA or its authorised representatives to the same extent as it were a department of the insurer.
 8. The outsourcing agreement shall contain an exit clause providing for smooth transfer of records and functions to the insurer or its nominated contractor in the event of the outsourcing agreement being terminated, without imposing onerous penalties for termination.
 9. Is subjected to periodical Audit, including Systems Audit, by the insurer or its authorised representatives.
4. Further, the insurer shall confirm to the Authority that it:
1. Has established a comprehensive policy to guide the assessment of outsourcing activity and its periodic review.
 2. Has applied due diligence in selecting the Service Provider.
 3. Has the approval of its Board for the Outsourcing arrangement in accordance with the Authority's guidelines.

The above confirmation of the insurer to the Authority shall be signed by the Principal Officer of the insurer.

5. Any agreement entered into with a Service Provider outsourcing the above-said services shall be filed with the Authority.

6. The outsourcing arrangement in no way takes away the obligations, accountability and responsibilities of the insurer to its policyholders and the Regulator in terms of the Law in force.

7. It is reiterated that activities other than Custodial services and calculation of NAV under ULIP, shall not be outsourced and the provisions contained in Circular INV/CIR/031/2004-05 dated 27th July, 2004 shall be followed.

C S Rao
28.12.04
C S RAO
CHAIRMAN