

Ban on sale of new Ulips to stay: Sebi

Market regulator sticks to its guns while addressing Irda's concerns over financial stability of life insurers

N. Sundaresha Subramanian and Joel Rebello

Mumbai: A day after India's finance minister Pranab Mukherjee brokered a temporary truce between the insurance regulator and the capital market watchdog on the sale of unit-linked insurance plans, or Ulips, the Securities and Exchange Board of India (Sebi) on Tuesday stuck to its guns and barred life insurers from selling new Ulips.



The industry was surprised by the latest Sebi move but a person close to the development, who did not want to be named, said this was the "arrangement" reached between the two regulators at their meeting with the finance minister on Monday. J. Hari Narayan, chairman, Insurance Regulatory and Development Authority (Irda) was not available for comment.

Holding ground: Sebi chairman C.B. Bhavé. Ashesh Shah / Mint
Last Friday, Sebi restrained 14 entities from issuing any offer documents, advertisements, brochures soliciting money from investors by way of new or additional subscription for any product—including Ulips—till they obtain the requisite certificate of registration from the capital market watchdog.

Irda challenged this over the weekend and insurance firms continued to sell Ulips on Monday even as Mukherjee said, "To resolve any ambiguity and to ensure smooth functioning in the markets, the regulators have agreed to jointly seek a binding legal mandate from an appropriate court. Meanwhile, status-quo ante is being restored."

The Sebi clarification, issued on Tuesday evening, said old policies issued before 9 April can continue to collect premiums but no new Ulip scheme can be launched after 9 April without adhering to Sebi registration norms.

This essentially means that status quo has been restored with regard to existing Ulips but the 14 entities banned from selling them cannot launch any new products without obtaining Sebi registration.

Sebi's latest move, however, has addressed Irda's concerns raised over the financial stability of the life insurers if the renewal premiums of existing products were stopped. On 10 April, Hari Narayan said observance of the Sebi order would cause the stoppage of all renewals of insurance policies already invested by the insuring public and this "may result in forced premature surrender of policies causing substantial loss to the policyholder and to the insurers." He also said the stoppage of sale will seriously jeopardize the financial position of insurers, destabilize the markets and upset financial stability.

Before Sebi issued its latest order, Irda member R. Kannan told *PTI* on Tuesday the issue will be sorted out in a day or two. "It could take another one or two days to arrive at a decision." The regulator is examining various options to deal with the situation in light of the government's decision, Kannan said, adding, "Finance minister's direction is absolutely clear."

The person quoted earlier said the government will ensure a verdict on the contentious issue that will be legally binding for all—the regulators, insurance firms as well as consumers. "The paper work towards this will be completed in the next two to three weeks and the issue will be sorted out in the next three to six months," this person said.

Siddarth Shah, partner, Nishith Desai Associates, a law firm, gave a new dimension to the latest development, saying since the ban was limited to 14 life insurers, nine other companies including Life Insurance Corp. of India can continue to launch new policies.

"The Sebi order says life insurers cannot issue Ulips without registering with Sebi. But what will they register themselves as? In the absence of clarity on such issues, it effectively means no new Ulips can be sold until the legal issues are sorted out," he said.

Meanwhile, a public interest litigation has been filed in the Bombay high court, seeking reversal of Sebi's ban on the sale of Ulips by insurance companies. The petition, filed by an investor, is expected to come up for hearing on 15 April.

Petitioner Rajesh Thacker, a Mumbai-based businessman, has claimed that lakhs of investors in the country are "suffering anxiety and uncertainty about their investments" due to the order.

G.N. Agarwal, president of the Actuarial Society of India, said, "I feel Irda should now clarify on this. We will also ask Irda the status because a lot of people are asking us and there is a lot of confusion."

Actuaries mathematically evaluate the likelihood of events and quantify the contingent outcomes in order to minimize losses, both emotional and financial, associated with uncertain, undesirable events. They play a key role in new product development.

"On an average, Irda approves over 100 policies per year and it is possible that some policies may be pending with the regulator for approval this year," Agarwal said.

Some insurers feel the latest Sebi order will not have any major impact on the sale of Ulips. Recently, most insurers had got Irda approvals to launch new products after the regulator had told insurers to cap charges. In July 2009, Irda had put a cap on overall charges that life insurance firms can levy on subscribers of Ulips. Following this, insurers had to change the structure of their products and get fresh approvals.

Most insurers had taken approvals in January to sell policies in the last three months of the fiscal year, when most salaried employees buy Ulips as a tax-saving instrument.

"Following the change of rules on investment management charges, all insurers had to refile their Ulip products with Irda before 31 December. After 1 January 2010, only these new products were allowed to be sold. So most companies have refiled their products. We have filed and got Irda approvals for 10-12 products and have launched all of them," said an official with ICICI Prudential Life Insurance Co. Ltd.

"There's no dearth of products. Each insurer has six-seven Ulip products. Between them, these 14 companies would have more than 100 products. So, business will continue as usual. But nobody will plan new products now," said Kanwar Vivek, chief executive officer, Aditya Birla MoneyMart, a financial distribution company.

PTI *contributed to this story.*

Copyright © 2007 HT Media All Rights Reserved