Investment in ULIP

Be Responsible…..

Be Secure…..

About ULIP…..

A ULIP is a market-linked insurance plan. It combines both insurance cover and investment. The difference between a ULIP and other insurance plans is the way in which the premium money is invested. Premium from, say, an endowment plan, is invested primarily in risk-free instruments like government securities (gsecs) and AAA rated corporate paper, while ULIP premiums can be invested in stock markets in addition to corporate bonds and gsecs.

Mechanism of working of ULIP…..

ULIP is combination of risk cover and investment. A small deduction is made on the premium made by you on account of insurer charges. The major amount is invested into the fund chosen by you and converted into units. The mortality cover and fund management charges and similar expenses are deducted by cancellation of units. The fund is dependent upon equity and debt market for growth.

Features of ULIP…..

- **Transparency**
  However, ULIPs offer a transparent option for customers to plan their various life stage needs through market-led investments as compared to traditional investment plans.

- **Insurance cover plus savings**
  ULIPs serve the purpose of providing life insurance combined with savings at market-linked returns. To that extent, ULIPs can be termed as a two-in-one plan in terms of giving an individual the twin benefits of life insurance plus savings. This is unlike comparable instruments like a mutual fund for instance, which does not offer a life cover.

- **Multiple investment options**
  ULIPs offer variety than traditional life insurance plans. So there are multiple options at the individual's disposal. ULIPs generally come in three broad variants:

- Aggressive ULIPs (which invest 50%-100% in equities, balance in debt)
- Balanced ULIPs (invest around 20%-50% in equities)
- Conservative ULIPs (invest upto 20% in equities)

Although this is how the ULIP options are generally designed, the exact debt/equity allocations may vary across insurance companies. A ULIP policyholder has the option to invest in a variety of funds, depending on his risk profile. If one does not have the appetite to invest in equity, they can choose a debt or balanced fund.

➢ **Flexibility**
Individuals can switch between the ULIP variants outlined above to capitalise on investment opportunities across the equity and debt markets. Some insurance companies allow a certain number of free' switches. This is an important feature that allows the informed individual/investor to benefit from the vagaries of stock/debt markets. The informed investor can shift his assets from an Aggressive ULIP to a low-risk Conservative ULIP when the market is down. Switching also helps individuals on another front. They can shift from an Aggressive to a Balanced or a Conservative ULIP as they approach retirement. This is a reflection of the change in their risk appetite, as they grow older.

➢ **Works like a SIP**
Rupee cost-averaging is another important benefit associated with ULIPs. Individuals have probably already heard of the Systematic Investment Plan (SIP), which is increasingly being advocated by the mutual fund industry. With an SIP, individuals invest their monies regularly over time intervals of a month/quarter and don't have to worry about `timing' the stock markets. These are not benefits peculiar to mutual funds. Not many realise that ULIPs also tend to do the same, albeit on a quarterly/half-yearly basis. As a matter of fact, even the annual premium in a ULIP works on the rupee cost-averaging principle. An added benefit with ULIPs is that individuals can also invest a one-time amount in the ULIP either to benefit from opportunities in the stock markets or if they have an investible surplus in a particular year that they wish to put aside for the future. When you're buying a ULIP, make sure you select one that works well for you. The important thing is to look for and understand the nuances, which can considerably alter the way the product works for you.

RECENT REGULATORY INITIATIVES

More recently, IRDA has taken a holistic view of the features of ULIPs and addressed issues impacting the policyholders including the way such products are sold/bought; how ULIPs can be better financial instruments for providing risk coverage; how sale by unlicensed personnel and several other malpractices existing in this market may be curbed by plugging legal loopholes and tightening of the regulatory ambit; legal mandate to initiate direct penal action against Corporate Agents etc. The following regulatory initiatives have been approved by the Authority during the Board meeting on 31.05.10.

I. Distribution channel related changes:

1. IRDA has amended the IRDA (Insurance Advertisements and Disclosure) Regulations to remove any scope for the involvement of unlicensed personnel/entities in the sale of insurance products.

2. IRDA has amended the IRDA (Licensing of Corporate Agents) Regulations to further tighten the Code of Conduct of corporate agents to ensure that the prospect does not deal with any unlicensed person. The Regulations have also been amended to ensure that there is no scope for any kind of remuneration other than commission where sale has been affected. This measure will reduce the expenses of the insurer, thereby lowering premiums to be paid by the policyholder.

3. Regulations for referrals: IRDA has also addressed the issue of Referrals by bringing out separate Regulations leaving no scope for misuse of the system. Companies which wish to share their database of customers with insurers would need to get approval from IRDA after having conformed to the requirements as laid down in the Regulations. Further, there are restrictions on the business activities of the referral company to ensure that there is no misuse of the system. For instance, the referral company shall not be in any business of extending loans and advances or accepting deposits etc though there are exceptions such as for Regional Rural Banks, Co-operative banks etc. The Regulations cast obligations on the referral company as well as the insurer including submission of data as and when called for by the Authority.

II. ULIP STRUCTURE RELATED CHANGES:

1. **Lock in period increased to five years:**

   IRDA has increased the lock-in period for all Unit Linked Products from three years to five years, including top-up premiums, thereby making them long term financial instruments which basically provide risk protection.

2. **Level Paying Premiums:**

   Further, all regular premium /limited premium ULIPs shall have uniform/level paying premiums. Any additional payments shall be treated as single premium for the purpose of insurance cover.

3. **Even Distribution of Charges:**

   Charges on ULIPs are mandated to be evenly distributed during the lock in period, to ensure that high front ending of expenses is eliminated.

4. **Minimum Premium Paying Term of Five Years:**

   All limited premium unit linked insurance products, other than single premium products shall have premium paying term of at least five years.

5. **Increase In Risk Component:**

   Further, all unit linked products, other than pension and annuity products shall provide a mortality cover or a health cover thereby increasing the risk cover component in such products.

(i) The minimum mortality cover should be as follows:

Minimum Sum assured for age at entry of below 45 years	**Minimum Sum assured for age at entry of 45 years and above**
<u>Single Premium (SP) contracts</u>: 125 percent of single premium. <u>Regular Premium (RP) including limited premium paying (LPP) contracts</u>: 10 times the annualized premiums or (0.5 X T X annualized premium)	<u>Single Premium (SP) contracts</u>: 110 percent of single premium <u>Regular Premium (RP) including limited premium paying (LPP) contracts</u>: 7 times the annualized premiums or (0.25 X T X annualized premium) whichever is higher. At no time the death benefit

whichever is higher. At no time the death benefit shall be less than 105 percent of the total premiums (including top-ups) paid.	shall be less than 105 percent of the total premiums (including top-ups) paid.

(In case of whole life contracts, term (T) shall be taken as 70 minus age at entry)

(ii)The minimum health cover per annum should be as follows:

Minimum annual health cover for age at entry of below 45 years	**Minimum annual health cover for age at entry of 45 years and above**
Regular Premium (RP) contracts: 5 times the annualized premiums or Rs. 100,000 per annum whichever is higher, At no time the annual health cover shall be less than 105 percent of the total premiums paid.	Regular Premium (RP) contracts: 5times the annualized premiums or Rs. 75,000 per annum whichever is higher. At no time the annual health cover shall be less than 105 percent of the total premiums paid

6. **Minimum Guaranteed returns for Pension Products**

   As regards pension products, all ULIP pension/annuity products shall offer a minimum guaranteed return of 4.5% per annum or as specified by IRDA from time to time. This will protect the life time savings for the pensioners, from any adverse fluctuations at the time of maturity.

7. **Rationalization of CAP on Services**

   With a view to smoothening the cap on charges, the capping been rationalized to ensure that the difference in yield is capped from the 5th year onwards. This will not only reduce the overall charges on these products, but also smoothen the charge structure for the policyholder.

III.DISCONTINUANCE OF CHARGES:

IRDA has also addressed the issue of discontinuance of charges for surrender of ULIPs. The IRDA (Treatment of Discontinued Linked Insurance Policies) Regulations brought out by IRDA in this regard ensure that policyholders do not get overcharged when they wish to discontinue their policies for any emergency cash requirement. The Regulations stipulate that an insurer shall recover only the incurred acquisition costs in the event of discontinuance of policy and that these charges are not excessive. The discontinuance charges have been capped both as percentage of fund value and premium and also in absolute value. The Regulations also clearly define the Grace Period for different modes of premium payment. Upon discontinuance of a policy, a policyholder shall be entitled to exercise an option of either reviving the policy or completely withdrawing from the policy without any risk cover. Further, the regulations also enable IRDA to order refund of discontinuance charges in case they are found excessive on enquiry.

These regulations are applicable to all new ULIP products approved by IRDA after these regulations are notified.

Points to be considered while purchasing ULIP’s

Investment for long run: You will get good returns only after 5-8 years of investing therefore its charges should be seen from a long-term perspective as its charges are higher in the first few years which is why it takes more years to get a break even point in investments i.e. your cost will be recovered in a longer period. Your insurance agents might convince you to withdraw the money after 3 years but stay invested for 5-8 years minimum to get good returns.

Invest as per your risk profile: You must understand your risk appetite & accordingly allocate assets across different categories. Choose your fund depending upon your age and risk profile.

Company : Last but not least, insure with a brand you can trust to honour its commitment and service you according to your requirements All Ulips have several funds in which your money can be put to work, much like a mutual fund. Assuming that you choose the growth or the equity plan, ask for the NAV performance for at least the last two years. Choose three with the highest performance track record vis-a-vis the benchmark. Now choose the best performing policy in terms of returns with the lowest cost.

Charges : Understand all the charges levied on the product over its tenure, not just the initial charges. A complete charge structure would include the initial charges, the fixed administrative charges, the fund management charges, mortality charges and spreads, and that too, not only in the first year but also through the term of the policy.

Fund Options and Management : Understand the various fund options available to you and the fund management philosophy and objectives of each of them. Examine the track record of the funds and how they are performing in comparison to benchmarks. Importantly, look at how easily you can access information about your fund's performance when you need it -- are their daily NAVs? Is the portfolio disclosed regularly?

Features : Most ULIPs are rich in features such as allowing one to top-up or switch between funds, increase or decrease the protection level, or premium holidays. Carefully understand the conditions and charges associated with each of these. For instance, is there a minimum amount that must be switched? Is there a charge on the same? Must you go through medical underwriting if you want to increase the sum assured?

Conclusion…..

If you are considering long term investment, ULIP is excellent means to securely invest your savings. ULIP provides insurance cover, investment and tax benefits. The net returns on ULIP's are around 8 to 10%. ULIP is transparent by nature as you can daily track the net asset value of your fund. ULIP is also flexible as you can manage your systematically manage the invested amount in any type of fund. ULIP does not require your constant attention as your premium is managed by industry professionals. As a combination of insurance and investment strategy to provide insurance, investment growth and flexibility we recommend a combination of

1) A Pure Term Plan having Sum Assured of at least 10 times your Annual Income.

2) 50 % of investment in ULIP.

3) 50% of investment in PPF.