# ULIPs- Systematic Insurance cum Investment Plan

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Any individual who has purchased a insurance policy in the last year or surely would have a **Unit Linked Insuran** **Plan** (**ULIP**).

ULIPs have been selling like Wond Products in the recent past and they are lik to continue to outsell their plain van counterparts going ahead.

A ULIP is a **market-linked insurance plan**

The difference between a ULIP and otl insurance plans is the way in which premium money is invested. Premium fro say, an endowment plan, is invested prima in risk-free instruments like governm securities (gsecs) and AAA rated corpor paper, while ULIP premiums can be invest in stock markets in addition to corpor bonds and gsecs.

So what else apart from this reason makes **ULIPs** so attractive to the individual? Here, we have explored some reasons, which have made ULIPs so irresistible.

### Transparency

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:

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**Aggressive ULIPs**(which invest 80%-100% in equities, balance in debt)
- **Balanced ULIPs** (invest around 40%-60% 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. For instance, when stock markets were on the brink of 7,000 points (Sensex), the informed investor could have shifted his assets from an Aggressive ULIP to a low-risk Conservative ULIP.

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.

Take the following into consideration:

- **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



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they are performing in comparison to benchmarks. Who manages the funds and what experience do they have? Are there adequate controls? 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?
- **Company**
  Last but not least, insure with a brand you can trust to honour its commitment and service you according to your requirements

First and foremost, investors need to understand that a ULIP is a bundled product of their investments and their insurance proceeds. Since privatization in 2000 and the introduction of ULIPs as a life insurance product category, the overall insurance penetration in the country has grown from around 2% to 4%. Today, more than 70 per cent of the new business premium for life insurers comes from Ulips.

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 the last two years at least. 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.



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