



by Deepak Yohannan

How the recent changes in Ulips could affect you

A WHOLE lot of changes in the Ulip guidelines have been brought about by the recent norms announced by the Insurance Regulatory and Development Authority (IRDA). In fact, the basic fundamentals of the Ulip have been altered due to the changes announced.

How does it affect the policyholders of Ulips is yet a very smoky affair as the changes are just being interpreted by everyone as they perceive, since it has not yet been explicitly spelled out by IRDA. The basic changes and how it affects us, the consumers of Ulip have become the most important topic of such conversation. The changes due from September 1, 2010, are:

1 LOCK-IN period increased from three years to five years. This means that policyholders cannot surrender their policies till completion of 60 months of the policy.

How does it impact the policyholders?

As consumers, this can be good news, as insurance is a long term product. It is not going to be mis-utilised as a short term asset for parking funds. It is going to be a long term product for at least a period of five years, although insurance is actually considered beneficial if it is continued for at least 10 years.

2 EVEN distribution of charges over the entire period of five years of lock in. This means that all charges of Ulips will not be front loaded in first year only as before. It will be distributed evenly across the five years of lock in.

How does it impact the policyholders?

As consumers, this definitely is very good news. If the charges are evenly distributed over five years and not lop-sided in year one only, then the insurance agents' commissions will also have to be altered and it would also be distributed evenly for five years.

This would result in more dedication from their end to collect renewal premiums for at least a period of five years and not forgetting the customer once the policy has been issued and the agent's first year commissions paid! Hence, it would also result in less number of policies being lapsed and better continuity of the policies, which is beneficial for customer, insurer as well as the agent.

This will also result in a higher proportion of your premiums being allocated to creating wealth or providing insurance cover. Since benefits of equity investments are obtained over a greater period of time, this would benefit the customer much more than earlier.

3 LIMITED premium policies will have a minimum term of five years, other than single premium policies. This means that policies will not have a premium paying term for less than five years or 60 months.

How does it impact the policyholders?

This can be good or bad news depending on whether ULIPs are considered short term or long term investment. Since premiums have to be paid for at least five years or 60 months, the fund accumulation of the product will be good and definitely beneficial for the customer. However, he may consider this as an excess burden if he does not wish to continue it for long.

4 ALL TOP up premiums paid will have to be accompanied with a simultaneous rise in sum

assured. This means that previously a policyholder could pay top-up additional premiums till 25 per cent of all regular premiums paid without having to increase sum assured. However, this has now been altered and every additional premium will now have a mortality attached to it which would increase the sum assured of the product.

How does it impact the policyholders?

This can be good or bad news depending on whether you consider Ulip as an insurance product or an investment product. As an insurance product, this is very good news, as additional premium paid would result in increase of sum assured of the life insured. However, as an investment product, this may not be considered good news as mortality charges would be deducted for a simultaneous rise in sum assured for any additional premium paid.

5 MINIMUM sum assured increased from five times to 10 times of annualised premium.

This means all Ulips, other than pension or annuity products will have to be accompanied by life insurance coverage or health insurance coverage.

For life insurance coverage, the minimum sum assured for a person less than 45 years of age is 10 times the annualised premium or $(0.5 \times T \times X)$ annualised premium, whichever is higher, where T is the policy term. For a

person more than 45 years, minimum sum assured is seven times the annualised premium or $(0.25 \times T \times X)$ annualised premium, whichever is higher. Thus, at no time the death benefit shall be less than 100 per cent of the total premiums (including top-ups) paid.

For single premium policies, the minimum sum assured requirement remains the same at 1.25 times the single premium paid for person less than 45 years of age but for person more than 45 years of age, it is 1.1 times the single premium paid.

For health insurance coverage, the minimum sum assured for a person less than 45 years of age is five times the annualised premium paid or Rs 100,000 per annum whichever is higher. For a person more than 45 years of age, it is five times the annualised premium paid or Rs 75,000 per annum whichever is higher. Thus, at no time the annual health cover shall be less than 100 per cent of the total premiums paid.

How does it impact the policyholders?

As consumers, this can be good or bad news depending on whether you consider ULIP as an insurance product or an investment product. As an insurance product, this is very good news, as minimum sum assured for the premium paid will be higher and thus, greater life coverage is provided to the life insured. However, as an investment product, this may not be considered good news as mortality charges would be deducted for greater sum assured and thus, less fund

would be available for investment purpose.

6 MINIMUM return guaranteed for pension products at 4.5 per cent p.a. This means that pension products will have a minimum yield of 4.5 per cent p.a.

How does it impact the policyholders?

As consumers, this definitely is good news as there is a minimum amount guaranteed.

7 NO partial withdrawal during accumulation phase of pension policies. This means that once a pension policy starts, there is no provision of partial withdrawal of money like in traditional policies, even though it is an Ulip. However, there is a provision of withdrawing one-third the amount on vesting as per the Income Tax rule 10(10A).

How does it impact the policyholders?

As consumers, this definitely is not good news as flexibility has been removed and it becomes equivalent to traditional policies in this aspect.

8 LOAN will be granted on Ulips. Previously there was no provision of loans on Ulips. However, now the maximum loan amount that can be sanctioned under any

Ulip policy shall not exceed 40 per cent of the net asset value in those products where equity accounts for more than 60 per cent of the total share and shall not exceed 50 per cent of the net asset value of those products where debt instruments accounts for more than 60 per cent of the total share.

How does it impact the policyholders?

As consumers, this is good news as loans will now be provided even on Ulips like in traditional policies.

From September 1, 2010, all unit-linked products offered for sale shall have to abide by the above-stated norms. The numerous changes announced by IRDA on Ulips has a lot of mixed feelings but overall it brings good news to consumers and not-so-good news to agents and insurers as charges and commission structures need to be altered. These changes actually bring out the fact that Ulip is actually a long term insurance product with an investment wing and not the other way round.

The product has now been more aligned to an insurance product than its earlier version. Even from an investment perspective, since the diklat is to make the consumer stay locked-in for a longer period of time, the benefits should automatically accrue. Better, a much better hybrid product!

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