IndiaFirst LIFE INSURANCE

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'G-Sec Investment will Hit Ulip Appeal'

Personal Finance

Move may reduce investment choice and returns prospects for Ulip holders

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Mumbai: Investors in unit-linked insurance plans (Ulips) may get lower returns and fewer choices if the insurance regulator's proposal on mandatory 25% investment in government bonds becomes a rule, according to life insurers and money managers.

"Equity tends to deliver the highest returns across asset classes. Mandating a minimum exposure to government securities will run contradictory to this research-backed view, compromising customer choices," said RM Vishakha, managing director and chief executive of IndiaFirst Life Insurance. At present, Ulips make up 50-60% of life insurers' portfolios, with close to 90% of the premium going towards equity investment.

The proposal will also whittle down choices available to policyholders. "This draft reduces the flexibility offered to customers," said Kshitij Jain, managing director and CEO of Exide Life Insurance. All Ulips offer fund options with varying combinations of equity and debt, including pure equity, debt and balanced funds. "Ulips already offer hybrid funds which limit exposure to equities. Customers must get a choice to invest in 100% equity funds as well," said Jain.

The potential blow to Ulip prospects comes at a time when these insurance-cum-investment products are staging a comeback after being battered by sweeping regulatory changes and poor market conditions between 2010 and 2013.

Since late 2013, Ulips have seen a sustained revival in fortunes on the back of buoyant equity markets. In financial year 2014-15, fresh premium income from Ulips grew 40% from the previous year to ₹13,250 crore. Overall Ulip premiums crossed ₹41,565 crore, a rise of 15% over 2013-14. Total equity assets under management, too, swelled by 19% to ₹6.3 lakh crore.

The Insurance Regulatory and Development Authority of India's (IRDAI) proposal could put a spoke in the wheel of this year-long Ulip juggernaut and damp the spirits of an industry reeling under the impact of a series of regulations since 2010. "The proposal is regressive in nature. A market-linked product should be in a position to give returns in line with the market," said Manoj Nagpal, CEO of advisory firm Outlook Asia Capital, likening the draft regulation to the 25% mandatory statutory liquidity requirement for banks.

"One simply cannot apply a banking analogy to a market-linked product," he added.

Insurers fear that the proposed restrictive provision will translate into lack of parity with mutual funds, resulting in investors abandoning Ulips in favour of the latter. Financial advisors feel that mutual funds will get an upper hand as Ulip fund managers lose the freedom to make investment calls. "Asset allocation should be purely the fund manager's job. It is nobody else's call to decide where the fund's money should be invested. So, Ulips should also follow the same concept as mutual funds," said Nisreen Mamaji, founder, Moneyworks Financial Advisors.

However, there are others who believe it will not be all gloom and doom for the sector and policyholders, even if the proposal goes through in its current form. "It will ensure that the possibility of positive return is higher, without the policyholder having to make too many sacrifices to earn this return," said Aneesh Srivastava, chief investment officer at IDBI Federal Life Insurance. The possibility of positive return going up would mean risk levels coming down for policyholders.

"A 75:25 combination of equity and debt will not be a bad proposition. It can be a negative only in a scenario where markets see a sustained bull run over a five-year period, which is practically not possible," he added.

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