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Industry fears over Ulip returns

Disquiet over IRDAI proposal to mandatorily invest 25% in government bonds.

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.

"Equity tends to deliver the highest returns. Mandating a minimum exposure to government securities will run contradictory to this research-backed view," says R.M. Vishakha, MD 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 being invested in equity.

The proposal will also whittle down choices available to policyholders. "This draft reduces the flexibility offered to customers," says Kshitij Jain, MD 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.

Since late 2013, Ulips have seen sustained revival in fortunes on the back of buoyant equity markets. In 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.

The Insurance Regulatory and Development Authority of India's (IRDAI) proposal could put a spoke in the wheel of this Ulip juggernaut. "The proposal is regressive. A market-linked product should be in a position to give returns in line with the market," says Manoj Nagpal, CEO of Outlook Asia Capital. 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.

–Preeti Kulkarni and Sanket Dhanorkar

Thumbs down

20%
Growth in life insurers' equity assets

90%
Estimated Ulip premium going into equity currently

₹6.3 LAKH CR
Equity assets at the end of March 2015

₹5.26 LAKH CR
Equity assets at the end of March 2014

50-60%
Share of Ulip in life insurers' product portfolios